Sent by email only to consumerprotectionreview@sra.org.uk

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**Client money in legal services: Notifying the SRA of changes to help identify and act on risks**

The Legal Services Consumer Panel welcomes this consultation as a sensible and proportionate next step in the SRA's Consumer Protection Review. The Panel has engaged consistently with this review since its earlier stages, including on the model of holding client money and on the funding of the Compensation Fund, and welcomes the SRA's continued focus on client money protection.

The case for earlier, more targeted information is well evidenced by recent history. Axiom Ince, formed through a rapid series of mergers and acquisitions in April 2023, was closed following an SRA intervention in October 2023 after approximately £60 to £64.5 million of client money was misappropriated, with around 1,400 people losing their jobs in the closure[1]. The Legal Services Board's independent review found that the SRA had not acted adequately, effectively or efficiently in the period leading up to that collapse. The Panel considers Axiom Ince to be directly relevant to this consultation, since the firm's risk profile changed rapidly and substantially as a result of merger and acquisition activity that the SRA had no requirement to be notified of in advance. This history supports the case for the proposals in this consultation, rather than being an argument for caution.

The Panel's Tracker Survey 2024 found that 77 per cent of consumers who had used a solicitor in the previous two years trusted them to keep their money safe[2]. This is a considerable degree of public trust, and the Panel considers that the SRA's proposals in this consultation are a proportionate and necessary way of protecting that trust, by giving the SRA earlier visibility of the kinds of change that have, in recent cases, preceded serious harm to consumers.

Throughout this response, the Panel draws a comparison with the Financial Conduct Authority's change in control regime, under which a person must obtain the FCA's prior approval, not merely give notice, before acquiring or increasing control of an authorised firm, with criminal liability for proceeding without it. Measured against that precedent, the SRA's proposal, a notification requirement rather than an approval requirement, is a modest and proportionate response.

**The question this consultation does not answer: should solicitors hold client money at all**

The Panel wants to be direct about this. Every proposal in this consultation, the notification rule, fixed financial penalties, pre-notification of mergers and acquisitions, notification of new client money holdings, is a way of managing risk within a model in which solicitors routinely hold large sums of client money on behalf of consumers. Not one of them addresses whether that model should remain the default. In the Panel's view, this consultation, like the two client money consultations that preceded it, continues to tinker at the edges of a much larger problem, rather than confronting it.

The evidence for that larger problem is not hypothetical. Axiom Ince, formed through a rapid series of mergers and acquisitions, was closed following an SRA intervention in October 2023 after approximately £60 to £64.5 million of client money was misappropriated[3]. SSB Group collapsed into administration in January 2024 owing more than £200 million, arising substantially from litigation funding taken out to finance a very high volume of claims, leaving many clients personally liable for costs despite the 'no win, no fee' assurances they had been given[4]. Axiom Ince is the more directly relevant precedent for the client money and merger and acquisition proposals in this consultation specifically, since it concerns client money going missing following rapid acquisition led growth; SSB Group is included here because it illustrates the broader point that a firm's financial collapse, whatever its cause, can leave clients exposed, in that case through unsustainable litigation funding debt rather than client account risk. In both cases, the Legal Services Board found that the SRA had missed clear warning signs over an extended period. Earlier notification of mergers, acquisitions and new client money holdings, of the kind this consultation proposes, might have helped the SRA see these risks somewhat sooner. It would not have removed the underlying vulnerability in either case: that a firm's finances, whether through client money going missing or through unsustainable funder debt, can collapse and take clients' interests down with it.

This is not a new concern for the Panel. In its response to the SRA's November 2024 consultation, the Panel was among those who supported exploring alternatives to solicitors directly holding client money, specifically to reduce this risk[5]. The groundwork for that exploration already exists and has already been published. The SRA's own November 2024 consultation confirmed that firms are already permitted to use Third Party Managed Accounts, that only a small number currently choose to do so, and the SRA has published external research it commissioned into how other regulators and jurisdictions handle client money. That research identifies a range of workable alternative models, including third party solutions such as escrow providers and Third Party Managed Accounts, and reduced or no client money handling models, such as France's mandatory centralised CARPA system and an option used for conveyancing money in Singapore[6]. This is not an untested idea that requires years of further study, nor is it evidence the SRA still needs to gather. The SRA has already commissioned and published the research; what is missing is a commitment to act on it.

Instead, the SRA's own account in this consultation is that reform of the underlying model 'cannot be quickly resolved', and that it will 'return to' the question in due course, with no date attached[7]. The Panel does not accept that this can continue to be deferred indefinitely while narrower reforms accumulate around it. Each new notification requirement and each new fixed penalty add another layer of monitoring to a model whose core vulnerability, that client money sits with the firm rather than with an independent, ring-fenced custodian, remains completely untouched.

The Panel sets out below, under Question 7, what it would ask the SRA to commit to as a result of this argument, where the question of new client money holdings gives it its most direct application.

**Question 1**

***Do you agree with our proposal to create a specific rule that firms must notify us of 'prescribed events' and our approach to prescribing events?***

Yes. The Panel supports the creation of a broad, adaptable notification rule, rather than an exhaustive list fixed in the Standards and Regulations. A rule of this kind allows the SRA to respond to new and emerging risks as the market changes, which the Panel considers preferable to a static list that would inevitably lag behind new patterns of harm. The Panel also welcomes the SRA's commitment to give the profession advance notice of any proposed new notifiable event, together with the reasons for it and the information that will be required, since this transparency should support good compliance and reduce the administrative burden of last-minute change.

**Question 2**

***Do you agree that it is appropriate to have the option of applying the fixed financial penalties regime in the first instance where a firm does not comply with our notification requirements?***

Yes. The Panel agrees that a fixed financial penalty is an appropriate and proportionate tool for straightforward administrative failures, such as a late or incomplete notification, reserving more serious enforcement action for continued or persistent non-compliance, as the consultation proposes. This mirrors an established and workable precedent in financial services regulation. The Financial Conduct Authority applies an automatic administrative fee for late regulatory returns, reduced from £250 to £100 with effect from April 2026, precisely because timely, accurate data matters more to a regulator's ability to spot risk than the size of any individual penalty[8]. The Panel would ask the SRA to publish the proposed fee scale for consultation before it is set, and to ensure the fee is proportionate for sole practitioners and small firms, for whom a fixed penalty represents a larger relative burden than for large firms.

**Question 3**

***Do you agree with our proposal to prescribe as a notifiable event a merger or acquisition that is in contemplation and that has reached the Heads of Term or equivalent stage?***

Yes, strongly. Axiom Ince was itself formed through a rapid sequence of mergers and acquisitions, including the acquisition of Ince Gordon Dadds in April 2023, only months before it was closed by an SRA intervention in October 2023 with tens of millions of pounds of client money missing[9]. A requirement to pre-notify the SRA at Heads of Term stage would have given the regulator visibility of exactly this kind of rapid, risk-changing activity well before it materialised into harm. The Panel considers, however, that the trigger point should capture more than the moment Heads of Term are signed. Discussions can reach a stage where the parties have moved beyond initial conversations and are actively pursuing the transaction well before any Heads of Term document exists, and the SRA's visibility of risk should begin from that point, early enough to allow it to look at any risks and take action before consumers are harmed, rather than waiting for a formal document that not every transaction produces. Heads of Term remains a sensible default trigger for the many transactions that do use them, but the Panel would ask the SRA to explain what the equivalent trigger should be for transactions that proceed without a formal Heads of Term stage, so that firms cannot delay notification simply by not producing one. The Panel does not consider that the point at which parties sign a non-disclosure agreement is an appropriate alternative trigger, since discussions at that stage may still go no further.

The Panel would also note that this proposal is markedly less onerous than the equivalent regime in financial services. Under the Financial Conduct Authority's change in control regime, a person must obtain the regulator's prior approval, not simply give notice, before acquiring or increasing control of an authorised firm, and proceeding without approval is a criminal offence[10]. The SRA's proposal, by contrast, is a notification only requirement with no approval gateway. Given the scale of harm, a poorly managed merger or acquisition can cause, as Axiom Ince demonstrates, the Panel would ask the SRA to explain, in its consultation response, why a notification only model was preferred to an approval-based model of the kind long established in financial services, rather than assuming the case for the lighter touch approach is self-evident.

The Panel does not consider that this notification requirement should be scaled back for smaller transactions and would caution against any size or materiality threshold that exempted transactions below a certain value or client money exposure. Axiom Ince, the case that most directly evidences the risk this proposal addresses, was itself formed through a rapid series of acquisitions, including Ince Gordon Dadds in April 2023, each of which might have appeared modest in isolation. A firm growing quickly through a series of individually small acquisitions can accumulate the same change in risk profile as a firm completing one large transaction, and a threshold set at the level of the individual deal would not capture that pattern. The SRA is better placed than any individual firm to see this cumulative picture once it holds the underlying data, provided the notification requirement is not itself narrowed to exclude the smaller transactions that make up that pattern. The Panel would ask that any case for exempting smaller transactions be made by the SRA, with supporting evidence, rather than assumed as a proportionate simplification.

The Panel would draw a distinction here between the scope of notification and the SRA's response to it. Requiring universal notification, without a size or materiality threshold, is necessary so that the SRA holds a complete picture and can identify patterns, such as a series of smaller acquisitions, that would otherwise fall beneath any individual threshold. What the SRA then does with that information is a separate question, and the Panel would expect, and welcomes, a proportionate, risk based supervisory response, with closer scrutiny reserved for the notifications that indicate genuine risk, rather than an equally intensive response to every transaction notified. The Panel returns to this distinction, and to the wider question of how it balances consumer protection against proportionality, in its concluding remarks below.

**Question 4**

***Do you have any comments about whether it would be beneficial to be notified of a merger or acquisition at least 30 days prior to the merger and acquisition completing and how this might be achieved, given that completion is an uncertain event?***

The Panel agrees that a 30-day advance window would be valuable, but recognises the practical difficulty the SRA has identified, that completion dates for mergers and acquisitions are inherently uncertain. Rather than relying solely on a single notification at Heads of Term stage, the Panel would suggest a supplementary, lighter touch update requirement once a firm completion date is agreed or becomes reasonably foreseeable, even if this falls outside a strict 30-day window in individual cases. This two point model, an initial notification at Heads of Term and a follow up confirmation closer to completion, would give the SRA both an early signal and a more reliable, up to date picture as the transaction progresses, without requiring firms to predict an uncertain date at the outset.

**Question 5**

***Do you have any views on whether different arrangements are needed for requiring notification of mergers and acquisitions that will proceed and complete very quickly? Do you have any suggestions for a more appropriate arrangement in these circumstances?***

Yes. The Panel agrees that accelerated transactions, such as the rescue sale of a firm that is no longer able to continue operating, need a different arrangement. In these circumstances, requiring the same advance notice as a standard transaction is unrealistic and could delay a rescue that is itself in clients' interests. The Panel would suggest a shortened, expedited notification requirement for these cases, for example notification as soon as reasonably practicable and in any event before completion, rather than a fixed number of days in advance, so that the SRA still receives visibility of the transaction without the requirement becoming a barrier to a swift rescue that protects client money and continuity of service.

**Question 6**

***Do you agree with the specific information that firms will be required to provide notifying us of the prescribed event?***

Yes, the proposed information (the parties' names, turnover, client money held, areas of law practised, expected completion date, prior acquisition history and the proposed post transaction structure) is a sensible and proportionate list[11]. Given that Axiom Ince's rapid growth through acquisition was itself a risk indicator that was not visible to the SRA in advance, the Panel would suggest one addition: a brief description of the rationale for the transaction and how the parties intend to manage integration, since poorly managed integration is identified elsewhere in this consultation as a distinct risk factor in its own right. This need not be a lengthy document, but a short narrative alongside the factual information proposed would help the SRA distinguish, at an early stage, mergers driven by sound strategic fit from those driven primarily by rapid, acquisition led growth.

The Panel would also suggest one further addition. Given that the proposed information already includes the value of any client money held and an indication of the new organisation's structure, the Panel would ask the SRA to consider a more specific question on where client money will actually be held following the transaction, for example which entity, holding company or group structure will hold or control the relevant client account. Consumers whose money is affected by a merger or acquisition have a legitimate interest in knowing which organisation is now responsible for it, and this information would also help the SRA identify where client money has moved into a more complex or opaque group structure as a result of the transaction.

**Question 7**

***Do you agree with our proposal around holding client money as a notifiable event?***

Yes. The Panel agrees that a firm beginning to hold or receive client money, having previously told the SRA that it does not do so, is a significant enough change in risk profile to warrant prompt notification rather than waiting until the next practising certificate renewal. Client money protection is at the core of the Panel's interest in this consultation, and the Panel considers it self evident that the SRA should know, as close to real time as reasonably possible, which firms are newly responsible for holding it.

This notification requirement manages the risk that arises from firms holding client money, but it does not reduce the underlying risk itself. The Panel considers that reducing the underlying risk requires the SRA to address whether solicitors should hold client money directly at all. The SRA's own November 2024 consultation confirmed that firms may already use Third Party Managed Accounts, that only a small number currently do so, and that the SRA has commissioned and published external research identifying workable alternative models, including third party solutions such as escrow providers and Third Party Managed Accounts, and reduced or no client money holding models such as France's centralised CARPA system and an option used for conveyancing money in Singapore. The SRA's own account in this consultation, however, is that reform of the underlying model ‘cannot be quickly resolved’, with no date attached for returning to the question. The Panel therefore calls on the SRA to use its response to this consultation to commit to a firm, public timetable for addressing this question directly, specifically to:

- launch a formal consultation on requiring, or defaulting to, Third Party Managed Accounts for some or all categories of client money, within a stated period of no more than 12 months;
- set out a clear timetable for deciding whether to adopt one of the alternative models its own published research has already identified, including Third Party Managed Accounts, escrow arrangements or a reduced client money holding

model of the kind used in France and Singapore, rather than commissioning further evidence gathering as a means of delay;
- set out, in the same response, a clear assessment of which categories of client money (for example, conveyancing completion funds as against smaller transactional balances) are best suited to a move away from firms holding money directly, so that reform can proceed in a targeted way rather than waiting for a single, all-encompassing solution.

Absent such a commitment, the Panel is concerned that the pattern seen in Axiom Ince, serious harm to clients identified only after a firm's finances have already collapsed, will simply recur in a new form, however much sooner the SRA is notified that it is happening.

**Question 8**

***Do you agree with our proposal that firms should notify us of the prescribed even within 28 days of starting to receive or hold client money?***

Yes, 28 days is a reasonable window, consistent with other notification periods already used elsewhere in the Standards and Regulations, such as the existing 28-day period for notifying the SRA that a firm is closing following a merger or acquisition. A consistent notification period across different rules should make compliance easier for firms to understand and apply.

**Question 9**

***Do you agree with our proposal to require that the firm: informs us of the date that it began to receive or hold client money informs us of the amount that it is holding at the point of notification and confirms that it is operating a client account as required in compliance with our Accounts Rules?***

The Panel agrees with the first two elements. On the third, the Panel would ask the SRA to consider whether a bare confirmation of compliance with the Accounts Rules is sufficient, given that the SRA's own December 2025 consultation on protecting client money reformed the accountants' reports regime and compliance officer checks on the basis that firms' own reporting and internal assurance had not been a sufficient safeguard on their own[12]. The Panel would suggest the notification also require basic supporting detail, for example confirmation of which bank the client account is held with and whether it has been separately verified as a client account, rather than a confirmation of compliance alone, so that the notification provides the SRA with something it can act on rather than only a firm's own assurance.

**Question 10**

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

The Panel would ask the SRA to consider the impact of these proposals on smaller firms and sole practitioners specifically, since these firms often have less administrative capacity to build new notification processes than larger firms, and may also be more likely to be the acquiring or acquired party in a merger or acquisition driven by financial pressure rather than strategic growth. The Panel would also ask the SRA to consider whether firms serving communities with characteristics protected under equality law, for example firms with a strong local or community client base, could be disproportionately affected if a merger, acquisition or change in a firm's client money profile disrupts continuity of service for those clients.

**Question 11**

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

The Panel would encourage the SRA to draw on the analysis in its own response to the November 2024 consultation on the Compensation Fund, in which the Panel previously supported a hybrid model of fund contributions combining risk categorisation with the amount of client money held[13]. The information gathered under the notification rule proposed in this consultation, particularly on client money holdings and merger and acquisition activity, could usefully inform that kind of risk based approach to Compensation Fund contributions in due course, linking this consultation's proposals to the Panel's established position on how the cost of protecting client money should be distributed across the profession.

**Concluding remarks**

Before turning to next steps, the Panel wants to be transparent about the approach it has taken in this response, since several of the judgements above involve a balance between consumer protection and proportionate, evidence based regulation. The Panel's starting point is that regulatory intervention should be judged by the outcome most likely to improve things for consumers, which will not always mean the strictest available option, since higher compliance cost across the industry can ultimately feed through to consumers as higher prices. In this response, however, the Panel has generally favoured the stronger form of the SRA's proposals, on the scope of M&A notification and on the trigger point for it in particular, because the available evidence, most directly Axiom Ince, is itself a case in which a lighter touch, proportionality driven approach allowed risk to go undetected until real harm had already occurred. The Panel considers this a reasoned application of its general test to the specific evidence in front of it, not a departure from that test, and it is why the response draws the distinction set out under Question 3 above between universal notification, which the evidence supports, and the SRA's subsequent supervisory response to what it is notified of, which the Panel expects and welcomes to be proportionate and risk based rather than uniformly intensive. The wider question of how the Panel weighs consumer protection against proportionality across its work more generally is one it intends to consider further as a Panel, rather than treating this response as having settled it.

The Panel supports this package of proposals and encourages the SRA to proceed with them. But it does so on the clear basis that these are measures to manage risk within the current model, not measures that resolve the underlying question set out above. The collapse of Axiom Ince and SSB Group shows clearly what can happen when a firm's risk profile changes rapidly and the regulator does not have timely visibility of it, whether the risk comes from client money sitting with the firm itself, as in Axiom Ince, or from unsustainable levels of litigation funding debt and cost liability to clients, as in

SSB Group. Earlier notification only translates into better consumer protection if it is matched by a clear process on the SRA's side for acting on it. The Panel would therefore also welcome more detail from the SRA on what happens once a notification is received: what internally triggers closer scrutiny or intervention, how notifications are risk assessed and escalated, and what firms and consumers should expect to see change as a result of this new visibility. Without that, the proposals in this consultation risk improving the SRA's information without improving its ability to act on it in time. The Panel would be glad to discuss any aspect of this response further and looks forward to the SRA's consultation response, including its commitment to a timetable for addressing the model of holding client money directly.

The Panel would be glad to discuss any aspect of this response further. Should you have any questions pertaining to this consultation response, please contact Lola Bello, Head, Consumer Panel at lola.bello@legalservicesconsumerpanel.org.uk

Yours sincerely,

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