

News release

Consultation on potential changes to how client money is handled in the legal sector

14 November 2024

As part of our ongoing review of [consumer protection arrangements in the legal sector](https://consultations.sra.org.uk/home/hot-topics/consumer-protection-review/#consultation) [https://consultations.sra.org.uk/home/hot-topics/consumer-protection-review/#consultation], we are consulting on potential changes to how and when law firms handle client money, and how this money is protected.

The client money in legal services - safeguarding consumers and providing redress consultation also considers future arrangements for the compensation fund, including how the scheme is funded.

Among the key issues explored in the consultation are:

- Whether in a digital age, and with feasible/credible alternatives becoming more available which may be better at safeguarding client's money, in the longer term is it still necessary or desirable for firms to hold client money as widely as currently the case, or at all.
- If rules around interest earned on client accounts, or how long firms can hold client money after the end of a case, need changing so they better serve client's interest.
- If changes are needed in terms of the controls, checks and balances firms are obliged to have in place to protect money held in client accounts. This includes obligations regarding accountants' reports and certain rules regarding control and oversight over client money.
- If changes are needed to how contributions toward the compensation fund are determined. For example, changing the 50/50 split between individuals and firms funding the scheme to a 70/30 ratio. Longer term it also asks questions such as whether contributions should be varied based on considerations such as size of firm, areas of law or other risk factors.

Proposals have been developed in light of the extensive feedback received following publication of our Consumer Protection Review discussion paper in February 2024. As part of this exercise, we held a wide range of focus groups, roundtables, events and direct conversations, involving more 200 members of the public, profession and wider groups. The proposals are also informed by the findings from externally commissioned research exploring areas such as consumer attitudes and perceptions, approaches in other jurisdictions and sectors, and analysis of future risks.

Paul Philip, SRA Chief Executive, said: 'This has so far been one of our largest ever and most in-depth pre-consultation exercises. We are

grateful to everyone in the public, profession and elsewhere who took the time to share their views.

'What we heard has confirmed that safeguarding consumer's money must be the priority. There was also widespread support for the vital role played by the SRA Compensation Fund, while identifying questions about how the scheme should be funded in the future and how we can make sure of its overall sustainability.'

The consultation launch is just one element of a wider programme of work emerging from the Consumer Protection Review. Other activity already completed, or underway includes:

- Publication, earlier this year, of warning notices to law firms on [mergers and acquisitions](https://consultations.sra.org.uk/solicitors/guidance/mergers-acquisitions-sales-law-firms/) [https://consultations.sra.org.uk/solicitors/guidance/mergers-acquisitions-sales-law-firms/] and what to do when [money is missing from the client account](https://consultations.sra.org.uk/solicitors/guidance/money-missing-client-account/) [https://consultations.sra.org.uk/solicitors/guidance/money-missing-client-account/].
- Conducting a review, and implementing resulting improvements, regarding our internal processes for how we handle investigations and interventions.
- Improving how we use data about law firms and complaints to spot patterns, including by increasing investment in technology and resource in this area.

The consultation will run for 14 weeks until 21 February 2025. During this period we will also be staging a series of engagement events with the public, legal profession and wider stakeholders.

To find out more and how to have your say, visit [our consultation](https://consultations.sra.org.uk/home/hot-topics/consumer-protection-review/#consultation) [https://consultations.sra.org.uk/home/hot-topics/consumer-protection-review/#consultation].