Open Letter
FAO Ms Sarah Rapson
Chief Executive of the SRA

Cc: SRA Board, Legal Services Board & Law Society

Dear Ms Rapson,

Re: Proposed COLP and COFA Restrictions: Disproportionate Impact on Small, Medium and Boutique Law Firms

We write as owners and managers of small, medium and boutique SRA-regulated law firms and other affected parties to express our serious concern regarding the proposed restrictions preventing individuals with unilateral management control from acting as their firm's COLP and/or COFA where specified financial thresholds are exceeded.

Executive Summary
These proposals have caused genuine alarm among small, medium and boutique law firms.

We are owners, managers and compliance professionals who support the SRA's objective of protecting client money. We understand why action is necessary where clients have suffered devastating losses. But we are deeply concerned that, in seeking to prevent those failures, the proposals risk imposing sweeping structural changes on hundreds of smaller, successful and compliant firms which have done nothing wrong.

Approximately 1,660 firms may be affected, including around 431 sole owner-manager firms. Behind those numbers are businesses people have spent years building, jobs they have created, clients and communities they serve, and individuals who carry personal and professional responsibility for ensuring their firms operate properly.

A turnover of £600,000 does not make a firm large. Nor does it make it risky. A small firm crossing that threshold could suddenly find that the person who built its compliance systems, knows its finances intimately and has ultimate authority over the business is no longer permitted to hold both compliance roles. The same threshold may also catch specialist advisory practices with little or no client-money exposure. In some small firms, every director could potentially be excluded, forcing them to appoint someone more junior, recruit externally or outsource simply to satisfy a structural requirement.

The consequences are not theoretical. Firms face recruitment and outsourcing costs they may struggle to absorb, while hundreds could be competing simultaneously for a limited pool of experienced COLPs and COFAs. Existing compliance professionals may find their roles displaced. For some firms, the result may be reduced growth, higher prices, consolidation or even questions about whether remaining in practice is commercially viable. That has consequences not only for firms, but for access to justice, competition and diversity within the profession, particularly where minority ethnic solicitors are disproportionately represented among sole practitioners and smaller firms.

Most troublingly, we have not yet seen evidence that these consequences will make client money safer.

We are not asking the SRA to step back from protecting the public. We are asking it to target the risk, rather than the size and ownership structure of the businesses it regulates. Enhanced financial reporting, monitoring of client-account activity and a genuine multifactor risk assessment could identify warning signs directly, without forcing well-run firms to restructure simply because they have grown beyond an arbitrary financial threshold.

Once firms have recruited, outsourced, restructured or lost experienced compliance personnel, that disruption cannot simply be undone. We urge the SRA to be certain that this intervention is necessary, proportionate and demonstrably capable of making client money safer before asking hundreds of small firms to bear its consequences.

We therefore ask the SRA to pause implementation while it:

- publishes the evidence supporting the £600,000 threshold and proposed restriction on owner-managers;
- assesses the specific impact on genuinely smaller firms, access to justice and equality and diversity within the profession, together with the capacity and cost of the alternative COLP/COFA market;
- considers an exemption or waiver for firms able to demonstrate effective governance and financial controls;
- considers enhanced financial monitoring and other risk-based alternatives; and
- provides a meaningful transitional period if structural changes are ultimately required.

The priority should be to ensure that reform is necessary, proportionate, workable and demonstrably directed at the causes of client-money loss before affected firms are required to restructure. Our full substantive response is detailed below.

Since this letter was first prepared, the SRA has provided further clarification regarding the meaning of "unilateral" management control within the proposed restriction. We welcome clarification where it assists firms in understanding the intended scope of new regulatory requirements. However, we do not understand that clarification to represent a substantive change to the underlying policy or to provide relief to the category of firms at the centre of this letter.

Our concerns have always proceeded on the basis that the restriction applies where an individual is capable of unilaterally determining or directing significant management decisions. The clarification that genuinely collective management arrangements may therefore fall outside the restriction does not alter the position of sole owner-managers, or other individuals who do in fact possess the unilateral authority described by the SRA. Nor does it alter the £600,000 turnover threshold or answer the evidential, proportionality, market-capacity, equality and access-to-justice concerns raised below.

We therefore welcome greater clarity as to the intended operation of the rule, but respectfully disagree with any suggestion that clarification of its scope resolves the substantive concerns raised by affected firms. For those firms whose owner-managers genuinely possess unilateral management authority, the proposed restriction remains substantively unchanged.

Our Full Substantive Response to the Proposals

Our full substantive response can be broken down into the following areas and are detailed at length below:-

1. The Scale of the Impact
2. Turnover is Not Organisational Size
3. Separating Responsibility From Knowledge and Authority
4. Impact on Professional Compliance Personnel
5. Is There Even a Market Capable of Meeting the Requirements?
6. The Commercial Reality for Smaller Firms
7. Access to Justice Equality and Diversity
8. The £600,000 Cliff Edge
9. There Are More Effective Ways to Supervise Client Money
10. A Proportionate Alternative
11. Unintended Consequences
12. The Implementation Timetable is Premature
13. Large Scale Failures
14. Our Requests

1. The Scale of the Impact

This is not a measure affecting only a small number of unusually large or complex practices. The SRA's own impact assessment estimates that approximately 1,660 firms will fall within the proposed thresholds, including approximately 431 sole owner-manager firms.

The SRA has also identified that approximately 3,525 firms (39% of regulated firms) have annual turnover exceeding £600,000. Those figures alone should prompt serious consideration as to whether £600,000 turnover is an appropriate proxy for organisational size, complexity or regulatory risk.

The Law Society has separately expressed serious concerns about the proposals, stating that the thresholds are set too low, that they will negatively affect a significant number of firms, and that the proposals do not appear to have been based upon adequate evidence-based or risk-based analysis or modelling.

It is also notable that the SRA's own consultation response records that only around 40% of respondents agreed with the proposal to prevent managers capable of making unilateral decisions from holding compliance roles. While consultation is not a referendum, proceeding with a measure of this significance despite fewer than half of respondents supporting the underlying approach reinforces the need for particularly compelling evidence that the measure is necessary, proportionate and likely to achieve its stated objective.

<u>Sources:</u>

- Solicitors Regulation Authority, *Protecting the client money that solicitors hold – Equality Impact Assessment / final proposals (2026)*.
- The Law Society, *SRA further consultation on client money in legal services – Law Society response*, 23 February 2026.

2. Turnover is Not Organisational Size

A law firm generating more than £600,000 in annual turnover is not necessarily a large firm. Many specialist practices employing fewer than ten people exceed that figure. Indeed, a small firm can quite realistically exceed £600,000 turnover while employing only a handful of solicitors and support staff. Equally, firms practising in probate, conveyancing, Court of Protection and other client-money-intensive areas may routinely hold substantial sums of client money despite having very small teams.

The effect is particularly perverse where a small, successful practice grows beyond £600,000 turnover and thereby renders the individual who has built, managed and overseen its compliance systems ineligible to continue performing its compliance roles. Commercial success should not itself create a presumption of regulatory risk.

A further concern is that the proposed criteria risk treating firms as presenting an equivalent regulatory risk based on headline financial figures, without sufficient regard to the nature of the work undertaken, where client funds are actually held, or the extensive safeguards which may already apply to particular areas of practice.

We have been provided with the example of a specialist Court of Protection practice which is less than two years old and comprises just two directors and five employees. The firm acts as professional deputy for clients who have received high-value compensation awards and, as a result, is responsible for the management of significant client assets. However, those assets are not held within the firm's client account. They are held in the individual clients' names through institutions such as NS&I, the Court Funds Office and other banking and investment arrangements. The firm's own client account balance does not exceed approximately £10,000.

Accordingly, simply increasing the £600,000 turnover threshold would not resolve the difficulty for firms of this nature, because they may still be caught by reference to the value of funds or assets for which they are responsible despite the firm itself holding very little client money. The headline value of assets under management bears little relationship to the amount of client money actually held by the firm or, arguably, to the regulatory risk which the proposals are intended to address.

There is also a considerable degree of existing external scrutiny inherent in some niche areas of work, an example of which (and in keeping with the above) is professional deputyship work. Professional deputies are appointed by Court Order and are supervised by the Office of the Public Guardian. They are required to provide detailed annual reports accounting for income and expenditure, significant decisions and consultation undertaken on behalf of the protected person. Their files may be subject to visits and scrutiny by the OPG. Professional costs are subject to detailed assessment by the Senior Courts Costs Office, while significant investments will commonly involve specialist independent financial advice. Professional deputies are also required to maintain security bonds at levels determined by the Court, in addition to the professional indemnity insurance and regulatory obligations applicable to the solicitor and firm.

In such circumstances, the proposed restriction produces a somewhat anomalous result. A solicitor who is an officer of the court, appointed by the Court as professional deputy and already subject to extensive judicial, regulatory and financial oversight may be prohibited from holding both the COLP and COFA roles. Yet the firm may potentially satisfy the requirement by appointing an accountant or outsourcing the relevant function, notwithstanding that the individual or external provider may not themselves be regulated by the SRA. This raises a legitimate question as to whether the proposed restriction necessarily improves regulatory supervision and accountability in every case.

There are also particular concerns regarding proportionality and cost. For example (and in keeping with the example above), Court of Protection practices do not necessarily have the ability simply to pass the additional cost of compliance to clients. Professional deputy remuneration is already subject to significant controls, including prescribed hourly rates, restrictions on interim billing, annual assessment of costs, reporting requirements and costs estimates. For a small specialist practice, recruiting an additional individual purely to achieve separation of the COLP and COFA roles, or outsourcing one of those functions, may therefore represent a significant additional overhead which cannot readily be recovered from clients.

This example illustrates the wider difficulty with applying a uniform threshold across fundamentally different models of legal practice. The value of funds or assets for which a firm has responsibility is not necessarily synonymous with the value of client money held by that firm, nor is either figure, viewed in isolation, necessarily an accurate measure of regulatory risk. We would therefore urge the SRA to consider whether the nature of the work undertaken, the manner in which client assets are held, existing external supervision and safeguards, and the firm's actual client account exposure should form part of any assessment of whether separation of the COLP and COFA roles is necessary and proportionate.

Whilst Court of Protection is a specialist area of practice, the underlying problem is by no means confined to it. Similar distortions can arise across a range of more mainstream practice areas. A small probate practice may temporarily hold several million pounds following the sale of an estate property or encashment of investments. A conveyancing practice may exceed the relevant threshold because several completions happen to coincide on a particular day. A personal injury or clinical negligence practice may receive a substantial damages award on a single matter. Conversely, a boutique commercial or contentious practice may exceed the turnover threshold because of the value of the work undertaken, despite having relatively few clients, a small number of experienced fee earners and little or no client money.

These examples illustrate why neither turnover nor a single maximum client-account balance, viewed in isolation, necessarily provides a reliable proxy for the governance or client-money risk presented by a firm. The same financial threshold may capture firms for entirely different reasons and with fundamentally different risk profiles. Financial throughput is not organisational complexity, and commercial success should not itself create a presumption of regulatory risk.

3. Separating Responsibility From Knowledge and Authority

In many small firms, the owner-manager is not merely the person with ultimate authority. They are also the person with the greatest knowledge of the firm's systems, client account, regulatory obligations and operational risks.

They are personally, professionally and financially invested in ensuring that the firm remains compliant. Requiring that individual to relinquish the COLP and/or COFA role does not remove their responsibility for the firm's conduct as an owner and manager. Instead, it may require the firm to appoint another individual who has less knowledge of the business, less day-to-day oversight and less personal investment in its continued regulatory compliance.

This creates an obvious question: How does requiring the person with the greatest knowledge of, authority within and personal exposure to the business to surrender its compliance roles necessarily improve consumer protection?

For many small firms, there is simply no other existing employee of sufficient seniority, experience or independence to assume these responsibilities. The practical alternatives will therefore often be recruitment of an additional senior employee or appointment of an external or fractional compliance officer. Neither necessarily provides greater protection. An employed COFA remains an employee of the owner-manager and may therefore still be susceptible to pressure from them. An external or fractional COFA may have considerably less visibility of the firm's day-to-day financial activity. Separation alone does not create independence.

The difficulty is not confined to sole owner-manager firms. A small practice may, for example, comprise only two directors, each of whom has authority in the ordinary course of business to determine or direct significant management decisions. If the firm exceeds the relevant financial threshold, the proposed rules could potentially render both directors ineligible to act as COLP or COFA. The firm could therefore be required to appoint an employee or external individual to its compliance roles despite both of its owners and senior decision-makers being excluded from doing so. This illustrates the particular difficulty of applying the concept of unilateral decision-making to very small management structures, where operational authority is necessarily concentrated among a very small number of individuals.

4. Impact on Professional Compliance Personnel

A further unintended consequence which does not appear to have received sufficient consideration is the potential impact upon the growing number of specialist compliance professionals employed within law firms.

Compliance functions within modern legal practices do not necessarily consist simply of the individuals formally designated as COLP and COFA. Many firms employ dedicated compliance managers, officers and support teams who undertake the day-to-day work of monitoring regulatory compliance, developing policies and procedures, undertaking audits, identifying risks, training staff and providing challenge to senior management, while ultimate regulatory accountability remains with the firm's formally appointed COLP and COFA.

For example, we have heard from an experienced compliance manager who has spent ten years developing a career in legal compliance and now runs the day-to-day compliance function of a firm with the assistance of another member of staff. The firm's formal COLP and COFA roles are held by its two joint managing directors, within a wider management structure comprising five equity directors who make significant decisions collectively. This is not an absence of separation or compliance resource. It is an established governance model in which operational compliance expertise and ultimate regulatory accountability perform different but complementary functions.

Requiring firms with structures of this nature to appoint different individuals as COLP and/or COFA could have consequences extending beyond the cost of the replacement appointment. Existing specialist compliance personnel may not themselves satisfy the eligibility requirements for the formal role, notwithstanding many years of relevant experience. A firm required to recruit an additional senior individual or engage an external provider may then be forced to consider whether it can commercially sustain both the newly mandated appointment and its existing internal compliance resource.

There is therefore a real risk that a reform intended to strengthen regulatory compliance could inadvertently result in experienced compliance professionals being displaced from the very functions in which they have developed considerable expertise. In some cases, firms could conceivably emerge from the restructuring with less embedded compliance knowledge and resource rather than more.

This is particularly concerning because the development of dedicated compliance careers within the legal sector should arguably be encouraged. Experienced compliance professionals provide specialist knowledge, continuity and internal challenge which cannot necessarily be replicated merely by changing the identity of the individual formally designated as COLP or COFA.

Before implementation, the SRA should therefore assess the impact of the proposals not only upon firm owners and existing COLPs and COFAs, but also upon specialist compliance personnel employed within affected firms. Consideration should be given to whether the proposals could inadvertently displace existing compliance expertise and whether an exemption or waiver mechanism should recognise established governance structures which can demonstrate effective separation, scrutiny and specialist compliance support without requiring wholesale restructuring.

5. Is There Even a Market Capable of Meeting the Requirement?

There is also a fundamental practical question which, to our knowledge, has not yet been adequately answered. If hundreds of sole owner-manager firms alone will require different compliance arrangements, where are the appropriately experienced people who will undertake these appointments?

These are not nominal positions. COLPs and COFAs assume significant personal regulatory responsibilities. Before imposing a requirement potentially forcing hundreds of firms to appoint alternative compliance officers, there should be evidence that a sufficiently developed market of appropriately qualified and experienced professionals exists. There should also be an assessment of what those services will cost.

The Law Society has already warned that affected firms may have little option but to outsource the roles or pay existing staff additional remuneration, increasing regulatory costs which are ultimately likely to be passed to consumers. That has obvious implications for access to justice.

6. The Commercial Reality for Small Firms

The practical financial impact of these proposals should not be underestimated. For a small owner-managed firm, compliance with the proposed requirements may not simply involve reallocating an existing responsibility. Where there is no suitably senior individual already within the business, the firm may be required either to recruit an additional senior employee or purchase external COLP/COFA services.

That creates a new fixed cost which bears no relationship to whether the firm has experienced any compliance failure. A firm with eight employees and turnover of £650,000 could therefore find itself required to incur substantial additional annual expenditure solely because it has crossed the £600,000 threshold.

The consequences go beyond the direct cost of the appointment. Recruiting an additional senior employee carries salary, employer National Insurance, pension, recruitment, training and other employment costs. Outsourcing the role carries its own ongoing professional fees, while potentially providing the compliance officer with less day-to-day visibility of the business.

For small practices operating on relatively modest net margins, these are not insignificant regulatory costs. They may represent money which would otherwise be available to recruit junior staff, invest in technology, improve cyber security, fund training or simply maintain competitive fees for consumers. Nor should turnover be confused with profit. A firm turning over £600,000 does not have £600,000 available to its owners. Salaries, premises, professional indemnity insurance, practising fees, technology, regulatory costs and the many other expenses of running a regulated practice must all be met from that turnover.

The proposal therefore creates the possibility that two otherwise identical small firms, one turning over £599,000 and another £601,000, face materially different operating costs despite there being no corresponding difference in their regulatory history, governance or risk to client money.

There is also a potential disincentive to growth. A small firm approaching the threshold may rationally conclude that taking on additional work, recruiting another fee earner or growing turnover beyond £600,000 will trigger a disproportionate additional compliance cost. Regulation intended to protect consumers should not inadvertently create a regulatory penalty for sustainable growth among small independent practices.

This would be a particularly concerning unintended consequence. Successful, compliant small firms should not face a regulatory penalty for sustainable growth where there has been no corresponding change in their governance, regulatory history or actual risk to client money.

The cumulative impact also matters. These costs cannot properly be assessed in isolation from other regulatory and commercial pressures facing small practices, including professional indemnity insurance, practising fees, technology and cyber-security requirements, staffing costs and the SRA's wider programme of reforms concerning client money. The question is therefore not simply whether an individual compliance measure is affordable in isolation, but whether its cumulative regulatory burden is proportionate to the risk it is intended to address.

7. Access to Justice, Equality and Diversity

The potential consequences of these proposals extend beyond the commercial interests of the firms affected. They also raise important questions concerning access to justice and equality and diversity within the profession.

Small and owner-managed firms play an important role in providing legal services to individuals and communities across England and Wales. They are often more accessible to consumers than larger practices and may provide specialist or locally based services which would not otherwise be readily available. The imposition of substantial additional compliance costs, recruitment requirements or structural changes upon those firms therefore has the potential to affect not only their profitability, but their ability to continue providing services at their current scale and cost.

If firms respond by increasing fees, reducing services, declining certain categories of work, consolidating or, in the most serious cases, leaving the market altogether, the consequences will ultimately be felt by consumers. A regulatory intervention intended to protect clients should not inadvertently make it more difficult or more expensive for those same clients to obtain legal advice.

There is also a potentially significant equality and diversity dimension which we believe requires careful consideration. Black, Asian and minority ethnic solicitors are disproportionately represented among sole practitioners and within smaller firms, making up 42% of partners in 1-partner firms and 24% of partners in 2–5 partner firms.

The SRA's own diversity data therefore demonstrates that minority ethnic representation is markedly higher within the smallest firms. Measures which impose their greatest structural and financial burden upon small and owner-managed practices may consequently have a correspondingly disproportionate impact upon lawyers from minority ethnic backgrounds and the businesses they have established.

The proposed restrictions are not necessarily neutral in their practical distribution simply because they do not expressly refer to ethnicity. A measure which places its greatest structural and financial burden upon sole owner-managed and very small firms risks disproportionately affecting groups who are disproportionately represented within those business structures. Before implementation, the SRA should therefore demonstrate that it has specifically assessed whether the proposals create a disproportionate equality impact and, if so, whether that impact is justified by clear evidence that the proposed restriction is necessary, proportionate and likely to achieve its stated regulatory objective.

This is particularly important where the proposals may prevent an owner-manager from personally undertaking a compliance role within their own firm and require them instead to recruit an additional senior individual or procure external compliance services. The financial and practical burden of doing so will not fall equally across the profession. A small independent practice has substantially less capacity to absorb such costs than a large firm with an established compliance team and greater financial resources.

We therefore respectfully suggest that, before implementation, the SRA should undertake and publish a detailed equality impact assessment and access to justice assessment, specifically considering the effect of the proposals upon sole practitioners, small firms, minority ethnic firm owners and the communities and clients those firms serve.

<u>Sources:</u>

- SRA's 2025 Diversity Data, published March 2026.

8. The £600,000 Cliff Edge

We are particularly concerned by the apparent absence of an evidential connection between £600,000 turnover and an increased risk of dishonesty or loss of client money.

A firm turning over £599,000 may retain its existing governance arrangements.
A firm turning over £601,000 may not. Yet nothing meaningful about the integrity, competence, internal controls or regulatory risk of those firms necessarily differs.

Indeed, the Law Society has expressly stated that the proposed thresholds are too low and has called for proper modelling using a representative sample of firms. A turnover figure may legitimately form one component of regulatory risk assessment. It should not operate as a regulatory cliff edge.

We note that the SRA relies in part upon £600,000 already being used within its authorisation arrangements to determine whether compliance officers may benefit from deemed approval. However, the fact that a threshold is administratively convenient, or already used for a different regulatory purpose, does not itself establish that the same figure represents an evidence-based inflection point for the risk of misappropriation of client money.

If £600,000 is to trigger a fundamental restriction upon the governance arrangements of a regulated business, there should be evidence demonstrating why the risk materially changes at that level. The fact that £600,000 already exists elsewhere in the regulatory framework is not, without more, that evidence.

There is a further evidential question which requires consideration. The proposals do not merely distinguish firms by financial threshold; they specifically impose additional restrictions where individuals capable of exercising unilateral management control also hold compliance roles. If that combination is considered to present a materially heightened regulatory risk, there should be evidence demonstrating that correlation.

We would therefore invite the SRA to publish data identifying the extent to which significant client-account shortages, interventions and compensation-fund losses have historically arisen within small owner-managed firms where an owner-manager also acted as COLP and/or COFA, compared with firms operating other management and compliance structures. That analysis should consider both the incidence and scale of losses. Without such evidence, it is difficult to assess whether the proposed structural separation is directed at a demonstrated source of regulatory risk or simply assumes that concentration of management authority necessarily creates one.

9. There Are More Effective Ways to Supervise Client Money

We do not suggest that the answer is less regulation. We suggest that it is better targeted regulation. Firms are already required by the SRA Accounts Rules to undertake client-account reconciliations at least every five weeks.

Rather than simply requiring those reconciliations to exist within firms, the SRA could require firms meeting appropriate risk criteria (or indeed all firms) to submit reconciliation information periodically to the regulator. This would convert an existing internal compliance control into a meaningful supervisory tool without requiring wholesale restructuring of otherwise compliant small businesses. Similarly, the proposed restoration of compulsory submission of accountants' reports provides the SRA with another valuable source of financial intelligence.

In addition, the above would give the SRA valuable insight into the performance of law firms which in turn would help the SRA carry out its own financial planning when it comes to annual renewals for law firms across the England and Wales. For example, six months of client account data showing client to office transfers would give the SRA a good idea as to what the expected turnover of the firm is likely to be and what periodic fees they can expect as a result.

The Law Society supports restoration of mandatory submission of accountants' reports and has expressly suggested that the SRA make better use of the data available to it, including sudden fluctuations in client-account balances, late filings, staffing ratios, ownership changes and repeated exceptions in bank confirmations. We agree.

Technology makes genuinely risk-based supervision increasingly achievable. For example, if a firm historically transfers approximately £50,000 per month from client to office account and suddenly transfers £150,000, that transaction pattern can be flagged automatically and the firm required to provide supporting evidence. It is far more difficult for those inclined to do so to effectively steal client money if they have to send their firm data to the SRA every 5 weeks. The infrastructure is already in situ to a large extent with the MySRA portal, and so we do not envisage it being overly difficult to set up a section for dedicated client account reconciliation submissions. The potential expense will come with the training of SRA staff in what to look for and/or the creation/adaptation of existing AI modelling systems that are already in use for financial institutions which would be used to analyse the reconciliation packs.

This approach would also be consistent with the SRA's own wider regulatory direction. In June 2026, the SRA launched a further consultation on strengthened notification requirements expressly intended to provide the regulator with more timely information so that changes in firms' risk profiles can be identified earlier.

We agree with that objective. However, it reinforces our view that the appropriate regulatory response is better intelligence, earlier identification of actual risk indicators and targeted intervention. Regular financial reporting and analysis of client-account data would appear directly aligned with that approach.

A regulator seeking to prevent the misappropriation of client money should arguably be taking a more tactical approach, including looking for unusual movements of client money, rather than simply asking whether a firm's turnover happens to exceed £600,000.

10. A Proportionate Alternative

We therefore invite the SRA to consider an enhanced supervision regime under which owner-managers may continue to act as COLP and/or COFA where appropriate safeguards are demonstrated.

Those safeguards could include:

- compulsory submission of all accountants' reports;
- mandatory client-account reconciliations in accordance with the Accounts Rules, coupled with periodic electronic reporting or submission of reconciliation data to the SRA for firms meeting defined risk criteria;
- automated regulatory monitoring for unusual changes in client-account balances and client-to-office transfers;
- mandatory dual authorisation for client-account payments above an appropriate threshold or other similar documented processes and procedures;
- enhanced reporting where transactions materially depart from the firm's established financial profile;
- compulsory initial training for individuals assuming COLP or COFA responsibilities. This would run in tandem with the current "deemed consent" model i.e. if a person is deemed to be able to carry out the COLP and COFA roles then they would still have to attend the initial training which could be charged back to the firms for a nominal fee which would, in turn, boost the finances of the SRA;
- mandatory annual COLP/COFA regulatory CPD or certification;
- independent periodic compliance reviews for firms meeting specified risk criteria; and
- a regulatory risk matrix incorporating factors such as turnover, maximum client-money exposure, regulatory history, staffing ratios, ownership structure, unusual transaction patterns, late reporting and accountants' report findings.

This would enable the SRA to distinguish between, for example, a well-run eight-person firm turning over £800,000 with strong financial controls and an unblemished regulatory history, and another business presenting multiple indicators of heightened financial risk.

At present, the proposed turnover threshold does not meaningfully make that distinction. In addition, the above safeguards would give the SRA valuable insight into the performance of law firms which in turn would help the SRA carry out its own financial planning when it comes to annual renewals for law firms across the England and Wales.

11. Unintended Consequences

We are also concerned about the wider market consequences of the proposals. Faced with significant additional compliance costs, some small firms may conclude that remaining within their existing SRA-regulated structure is no longer commercially viable.

We have also been provided with the example of a specialist advisory practice whose annual turnover exceeds the £600,000 threshold, but which does not operate a client account, hold or receive client money, or undertake transactional work involving client funds. The firm operates a deliberately lean model, comprising a sole owner-manager and experienced self-employed consultant solicitors who are not managers of the authorised body. The proposed restriction would prevent the owner-manager from continuing to act as both COLP and COFA, while leaving no existing consultant eligible to assume the COLP role. Compliance would therefore require the firm to alter an effective business model, appoint a consultant into a management role or recruit an additional solicitor largely to satisfy a structural requirement, notwithstanding that the firm does not present the client-money risk at which the reforms appear to be directed.

Others may cease holding client money, restrict the services they provide, restructure their businesses or investigate alternative regulatory arrangements. The result could be reduced competition, increased consumer costs and fewer accessible independent law firms.

The Law Society has itself warned that increased regulatory costs are likely to be passed to consumers and could adversely affect access to justice. That cannot be the intended consequence of reforms designed to protect those same consumers.

There is also a significant interaction between these proposals and the SRA's wider consideration of the future of client accounts.

For some affected firms, one means of avoiding the additional governance burden associated with holding client money may be to cease operating a traditional client account and instead use a third-party managed account ("TPMA"). The practical effect of these proposals may therefore be to drive small firms towards TPMAs, even where that is not otherwise the most appropriate model for the firm or its clients.

That has financial consequences which should not be overlooked. Firms holding substantial client balances may receive interest or other financial benefit associated with those balances, subject of course to their obligations to account fairly to clients. Moving those funds into a TPMA structure may materially alter that position and potentially remove an existing source of legitimate income from small practices, while introducing third-party charges which may ultimately be borne by firms or their clients.

This is particularly significant given the SRA's separate proposals concerning interest earned on client money. Earlier this year, proposals which could have significantly altered the treatment of interest generated on client accounts attracted substantial concern and opposition from the profession, and that wider policy question has not, to our understanding, yet been finally determined.

It would therefore be concerning if the practical effect of the COLP/COFA reforms were to accelerate a migration away from traditional client accounts before the SRA has concluded its wider policy work on client money and interest.

These issues should not be considered in isolation. If one regulatory reform materially changes firms' incentives to hold client money, while the regulatory and economic treatment of that money remains the subject of separate unresolved policy consideration, the cumulative impact upon small firms needs to be assessed before either policy is implemented.

12. The Implementation Timetable is Premature

We are also deeply concerned by the proposed implementation timetable.

These changes potentially require hundreds of small firms to fundamentally restructure their compliance arrangements, identify suitably experienced individuals willing to accept personal regulatory responsibility, negotiate terms, undertake appropriate due diligence and obtain any necessary regulatory approval. For sole owner-manager firms in particular, this is not a minor administrative change.

Yet significant questions remain unanswered about the proportionality of the £600,000 turnover threshold, the availability and cost of alternative or fractional compliance officers, the practical operation of the new arrangements and whether the proposed separation will in fact reduce the risk of loss of client money.

The proposed timetable also appears to take insufficient account of the realities of recruiting appropriately senior personnel within the legal profession. An individual capable of assuming the responsibilities of COLP or COFA is likely to be an experienced and senior professional. It is commonplace for individuals at that level to be subject to contractual notice periods of three to six months, with six-month notice periods by no means unusual.

That is before allowing any time for a firm to identify an appropriate candidate, undertake a recruitment process, agree contractual terms, allow the successful candidate to serve their existing notice period, complete appropriate handover and training, and obtain any necessary SRA approval.

Even if affected firms began recruitment immediately, therefore, there is a very real possibility that they could not have an appropriately experienced replacement in post by January through no fault of their own. Indeed, for a candidate subject to a six-month notice period, the proposed timetable may already be practically impossible before any allowance is made for recruitment, regulatory approval, onboarding or handover.

The position becomes still more concerning given the number of firms potentially seeking such individuals simultaneously. The SRA's own assessment indicates that approximately 1,660 firms will be affected, including approximately 431 sole owner-manager firms. If even a proportion of those firms enter the recruitment or fractional compliance market at the same time, this risks creating an artificial and immediate surge in demand for a relatively specialist pool of professionals.

That is likely not only to affect availability, but also to inflate the market cost of securing suitably experienced COLPs and COFAs – disproportionately affecting the very small firms most likely to need external assistance.

It is therefore difficult to see how implementation in January can reasonably proceed until the SRA has established that sufficient market capacity actually exists and allowed a transitional period which reflects real-world senior recruitment timescales, rather than simply the administrative time required to change a firm's regulatory arrangements.

There is a further issue of sequencing. The SRA has itself stated that it intends to undertake a wider, substantive review of the effectiveness of the role-holder accountability framework, with the timescale for that review yet to be determined. We question the proportionality of requiring hundreds of firms to make potentially costly and difficult structural changes to their compliance arrangements immediately before the SRA undertakes a substantive review of the effectiveness of the very role-holder framework within which those changes will operate.

There is a compelling case for that wider review to inform the design of these requirements before firms are required to restructure, rather than implementing structural separation first and reviewing the effectiveness of the underlying framework afterwards. It is unreasonable to expect firms to incur potentially significant cost and make fundamental governance changes while those issues remain unresolved.

We therefore ask the SRA to suspend the proposed January implementation of these requirements pending meaningful engagement with affected firms and proper consideration of the concerns raised above. Implementation should not proceed until the SRA has completed and published appropriate impact and risk modelling, demonstrated that the proposed regime is practically workable for small firms, considered proportionate alternative safeguards, and provided affected firms with a reasonable transitional period following confirmation of the final requirements.

This is particularly important because restructuring now may cause firms to incur substantial and potentially irreversible costs in order to comply with requirements which may subsequently be amended following further scrutiny. The priority should be getting the regulatory framework right, not implementing it quickly.

13. Large Scale Failures

The large-scale failures of Axiom Ince and PM Law demonstrate precisely why earlier identification of unusual financial activity and stronger regulatory oversight are required. While we cannot know whether the safeguards proposed above would have prevented those particular failures, regular reporting and analysis of client-account activity could provide additional opportunities for unusual patterns to be identified and investigated before losses escalate.

Since this letter was first prepared, the independent Serious Event Review into PM Law has been published. Its findings materially reinforce the concerns raised above.

The review identifies the SRA's failure to aggregate the substantial information already held about PM Law into a coherent risk picture as its "central finding". It further identifies deficiencies in the scope and rigour of forensic investigation, financial scrutiny, escalation, technology, training and regulatory capacity. Of particular significance, PM Law had already been identified by the SRA as presenting a high regulatory risk. The difficulty was therefore not simply an absence of information capable of identifying risk, but the failure effectively to aggregate, interrogate, escalate and act upon the information available.

The review identifies three structural gaps requiring resolution: technology capable of aggregating intelligence across regulatory workstreams; clearer frameworks, training and supervision for forensic investigations, particularly in relation to complex financial structures; and defined escalation criteria capable of ensuring that accumulated concerns reach appropriate senior decision-makers. Significantly, the review does not identify mandatory separation of owner-management from the COLP or COFA functions as one of those three structural solutions.

This does not establish that management and compliance structures are irrelevant to regulatory risk, nor do we suggest that they are. PM Law's CEO also held COFA roles within the group, and the review identifies serious deficiencies associated with the operation of those arrangements. However, that makes it particularly important to distinguish correlation from regulatory causation and to identify which intervention would actually have detected or prevented the loss.

PM Law was not simply a small successful practice which happened to exceed £600,000 turnover. It was a complex group of connected legal practices operating through multiple authorised entities and trading styles, which had pursued significant acquisition activity and generated numerous regulatory reports. The SRA had already identified it as high risk. Applying a structural restriction to a small owner-managed practice solely because its turnover exceeds £600,000 therefore requires a separate evidential justification.

The findings consequently reinforce rather than diminish the central question raised by this letter: what specific feature of the PM Law failure would the proposed COLP/COFA separation have detected or prevented that effective aggregation of regulatory intelligence, rigorous financial investigation, timely escalation and enhanced financial reporting would not?

We do not suggest that the measures proposed in this letter would necessarily have prevented every aspect of the Axiom Ince or PM Law failures. We do, however, suggest that the regulatory response should be directed at identifying the characteristics of the conduct that led to those failures and addressing the specific regulatory weaknesses that enabled that conduct to occur or failed to detect it.

In the case of Axiom Ince, the scale and apparent duration of the suspected misconduct raise an important question as to whether the principal regulatory weakness was simply the identity of the person occupying the compliance role, or whether the more significant issue was the absence of sufficiently effective independent financial intelligence and early-warning mechanisms.

In particular, where the alleged misconduct resulted in client-money losses on a very substantial scale, it is difficult to see why the regulatory response should assume that the central weakness was necessarily a lack of separation between management and compliance functions. A different COLP or COFA may provide an additional layer of oversight, but that does not in itself create visibility of transactions or financial information which would otherwise remain unavailable. If the relevant risk is that significant or unusual movements of client money can continue without detection, the more direct regulatory question is whether the SRA should have access to timely financial information capable of identifying those movements and triggering intervention.

The same question arises in relation to PM Law: what specific feature of the PM Law failure would the proposed COLP/COFA separation have detected that enhanced financial reporting would not?

14. Our Requests

We therefore ask the SRA, before implementation, to:

1. Suspend the proposed January implementation of the new COLP/COFA restrictions pending further engagement, impact assessment and resolution of the concerns identified above.
2. Reconsider the £600,000 turnover threshold and publish the evidential basis demonstrating a meaningful correlation between turnover above that figure and increased client-money or compliance risk.
3. Publish the evidential analysis supporting the proposed restriction on owner-managers, including comparative data on the incidence and scale of client-money shortages, interventions and compensation-fund losses arising in firms where individuals with unilateral management authority also held COLP and/or COFA roles, compared with firms operating other governance structures.
4. Explain how the proposed restriction on individuals with unilateral management authority holding COLP and/or COFA roles addresses the regulatory failures identified in the independent Serious Event Review into PM

Law, including the identified deficiencies in intelligence aggregation, forensic investigation, financial scrutiny and escalation, and publish the evidential basis for concluding that structural separation would materially reduce the risk of comparable future losses.

5. Publish its assessment of the market capacity and likely cost of alternative COLP/COFA appointments, particularly for the estimated 431 sole owner-manager firms affected.
6. Undertake specific modelling of the effect upon firms employing fewer than ten people, irrespective of turnover.
7. Undertake and publish an equality impact analysis specifically identifying the ethnic composition of the firms and owner-managers expected to be affected by the proposals, including comparison with the profession as a whole, and explain how any disproportionate impact identified has been taken into account in assessing necessity and proportionality.
8. Publish more granular data about the 1,660 firms expected to be affected, including their headcount and turnover bands, so that the profession can properly understand the impact upon genuinely small practices.
9. Engage directly with a representative group of affected smaller-firm owners before implementation.
10. Replace or supplement the turnover threshold with a multifactor, evidence-based risk assessment.
11. Introduce an exemption or waiver mechanism enabling firms above the financial thresholds to retain their existing COLP/COFA arrangements where they can demonstrate appropriate governance, financial controls, regulatory history, independent scrutiny and enhanced reporting.
12. Assess the impact upon existing compliance professionals and established compliance structures, including the risk that firms required to recruit additional senior personnel to satisfy the proposed eligibility requirements may be forced to reduce or displace existing specialist compliance resource. The SRA should consider how established governance models, including those involving experienced dedicated compliance personnel who may not themselves be eligible to hold the formal COLP or COFA role, can be recognised within any exemption, waiver or alternative compliance framework.
13. Consider mandatory periodic submission of client-account reconciliation data for firms meeting appropriate risk criteria, enabling the SRA to monitor actual indicators of financial risk rather than relying predominantly upon turnover.
14. Following completion of that process and publication of any final requirements, provide a meaningful transitional period sufficient for affected firms to identify, recruit and obtain approval for alternative compliance officers where ultimately required.
15. Undertake and publish a cumulative impact assessment of the COLP/COFA reforms alongside the SRA's wider client-account, TPMA and client-interest proposals, including the financial impact upon small firms of any regulatory incentive to cease holding client money.

We are not asking for weaker regulation. We are asking for smarter, evidence-based regulation. The profession shares the SRA's objective of preventing another catastrophic loss of client money. But regulation introduced in response to exceptional failures should be demonstrably capable of preventing those failures.

A regime which monitors unusual movements of client money, scrutinises accountants' reports, requires robust financial controls and identifies changing risk profiles has an obvious relationship with the prevention of client-money misappropriation.

Removing experienced owner-managers from compliance roles simply because their firms have become commercially successful does not, without more, demonstrate that same relationship. Where experienced owner-managers are compelled to relinquish compliance roles while retaining ultimate control, management and responsibility for the firm, the proposals may simply introduce an additional individual into the governance structure without addressing the underlying regulatory risk. In some circumstances, particularly where that individual has less knowledge of the firm's operations or financial activity, this could itself create additional risk rather than reducing it.

We also believe that the concerns raised in this letter should be considered against the SRA's own stated commitment to acting in the public interest, supporting a competitive and diverse legal sector, and regulating in a way that is proportionate, targeted and evidence-based. Small and specialist firms are an important part of that diverse profession and play a significant role in providing accessible legal services to individuals and businesses across England and Wales. Regulation which imposes substantial additional cost and structural change upon those firms should therefore be supported by clear evidence that the measures proposed are necessary, appropriately targeted and likely to achieve the intended regulatory outcome.

We do not suggest that effective regulation and protection of client money should be compromised. On the contrary, we support measures which demonstrably improve consumer protection and public confidence. Our concern is that imposing a significant structural requirement upon a broad and diverse group of firms, without sufficiently establishing the relationship between the characteristic being regulated and the harm being addressed, risks being inconsistent with those principles. Good regulation should address demonstrated risk while preserving, so far as possible, the diversity, sustainability and competitiveness of the profession it regulates.

We therefore urge the SRA to pause implementation of this aspect of the proposals, publish the evidence and analysis upon which it relies, and engage meaningfully with the small and specialist firms most likely to be affected. The consequences of getting this wrong are potentially significant: increased costs for consumers, reduced competition, displacement of experienced compliance professionals, barriers to sustainable growth and a disproportionate impact upon parts of an already diverse profession. Those consequences should not be imposed unless there is clear evidence that the proposed structural separation is necessary, proportionate and demonstrably capable of making client money safer.

We would welcome an urgent meeting between the SRA and representatives of affected small firms to discuss a more proportionate and effective approach before implementation

Yours sincerely,
Owners and managers of affected SRA-regulated firms & other affected parties.

Signed by:-

1. Jade Gani – CEO, Circe Law
2. Peter Redmond – Managing Director, Kings Solicitors Limited
3. Katie Lightfoot – Managing Partner, Caverley Lightfoot
4. Nathalie Wilson – Managing Partner, Wilson Family Law
5. Alexandra Gordon – Managing Partner, Tassells Solicitors
6. Louise Sackey - Managing Partner, PPL Solicitors
7. Stacey Bryant – Partner, Apricity Law
8. Helen Forster – Director, HTF Legal
9. Laura Nash – Director, Woolliscrofts Solicitors Ltd
10. Jo Perrett – Practice Manager & Finance Partner, Harold G Walker Solicitors
11. Kate Burt – CEO, HiveRisk
12. Beverley Morris – Managing Director, Beverley Morris & Co
13. Michael Trott – Managing Director, MCT Solicitors
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