

Chief Executive's Report

Purpose

- 1 This report sets out progress against our strategic objectives and provides an update on operational performance. It also highlights any important external developments.
 - Section 1: reports on our priorities and progress against the 2018/19 Business Plan.
 - Section 2: provides an update on operational performance, including our resource monitoring information and key performance indicators.
 - Section 3: provides information on important external developments and our relationships with key stakeholders.

Recommendations

- 2 The Board is asked:
 - a) to consider the Chief Executive's report
 - b) to delegate authority to the Chair to make further Brexit changes to our current Handbook as considered necessary or appropriate.
 - c) to delegate authority to the Chair to make the Brexit changes to the Standards and Regulations version of the rules before 25 November 2019, and if necessary, revoke them or amend the date they come into force if exit date changes.

If you have any questions about this paper please contact: Paul Philip, Chief Executive, paul.philip@sra.org.uk, 0121 329 6940.

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Section 1: Priorities for 2018/19

- 3 This section provides an update to the Board on our key priorities, starting with an overview of any key developments, followed by an update against our 2018/19 Business Plan.

Solicitors Indemnity Fund

- 4 The Board will recall that the Solicitors Indemnity Fund (SIF) (the legacy of the system under which, until 2000, Professional Indemnity Insurance for law firms was provided by the Law Society) is now in run off, and the balance of contributions collected prior to 2000 together with investment income is being used to fund the handling, defence and settlement of claims which fall to be dealt with by SIF. SIF Limited (SIFL) is a company limited by guarantee which was set up by the Law Society in 1987 for the purpose of managing and administering the SIF.
- 5 SIF provides run-off cover to any firm that ceased without a successor practise on or before 31 August 2000, the date from which it was agreed to move to open market insurance. At this time, it was agreed that SIF should also provide post 6 year run-off cover for firms that ceased without a successor practise after this date. Initially, it was agreed that this extended cover should be until 30 September 2017. In 2012, the SRA Board agreed a three-year extension to 30 September 2020. In 2014, The Law Society asked us to extend cover for a further 12 months, but this was not agreed by the Board on the basis that six years run off cover was deemed to be sufficient and the risk of claims being made afterwards was small.
- 6 This means that on 30 September 2020, post 6 year run off cover provided by SIF will not be available to firms that have closed or will be closing. Any claims that are made against firms after this date and outside of the 6-year run off period will not be dealt with by SIF. As we are now 12 months away from the end date, we need to start communicating this to practitioners that are relying on coverage provided by SIF to ensure they understand the impact that this could have on them, especially where an individual finds themselves becoming liable for a claim. SIFL will continue to manage claims that it has been notified of prior to the 30 September 2020.

Qualified Lawyers Transfer Scheme (QLTS) candidate fees

- 7 We have agreed an uplift of 4% in QLTS fees to take effect this year and to last until the end of the QLTS contract, 12 months after the introduction of the Solicitors Qualifying Exam. This means candidate fees will rise as follows:
- Multiple Choice Test (knowledge): current fee is £565 plus VAT; new fee £588 plus VAT

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- Objective Structured Clinical Examination (skills): current fee £2925 plus VAT; new fee £3042 plus VAT.

Progress against our 2018/19 Business Plan

- 8 We are making good progress to achieve the objectives set in our 2018/19 Business Plan. Below I highlight key areas of development to note against each Business Plan objective.

<p>Objective 1: We will set and apply consistently high professional standards for the individuals and firms we regulate and make sure they are appropriate to meet the challenges of today and the future</p>	<p>On track</p>
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- 9 We are on track to deliver this objective.

Solicitors Qualifying Examination (SQE)

- 10 We [published the results of the SQE 1 pilot](#) on 31 July 2019. Recruitment for the SQE 2 pilot was launched on 12 August 2019. SQE 2 is designed to assess the practical skills of intending solicitors. We hope to recruit up to 300 candidates for the pilot. The assessment will run from 10 – 15 December 2019.

Principles for Qualified Lawyers

- 11 The Principles for Qualified Lawyers explain the approach we take under SQE to qualified lawyers seeking admission as a solicitor of England and Wales. Specifically, they set out the basis upon which we will recognise qualifications and experience for the purpose of exemptions from the SQE, and how we will check competence in the English language. They will come into effect at the same time as the SQE Regulations.
- 12 In October 2019 we intend to consult on minor amendments to the Principles for Qualified Lawyers. The proposed changes will ensure consistency between the Principles and the Regulations and need to be resolved ahead of our second application to the LSB on SQE regulations in Spring 2020. We intend to consult for a six-week period.

Advocacy consultation and research published

- 13 We have launched our consultation on proposals designed to make sure that high standards of advocacy are provided by solicitors (<https://www.sra.org.uk/sra/consultations/consultation-listing/advocacy>). Open for 12 weeks, the consultation proposes changes to the assessment of solicitor advocates and qualifying requirements for undertaking advocacy in more serious youth court cases.

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- 14 At the same time, we have published our research which looks at: who is providing advocacy services, what types of advocacy they provide and the types of courts they practise in. The research found that 60% of firms are providing civil advocacy, 32% providing criminal advocacy, 47% in the area of family law and 45% providing advocacy at tribunals. The full report is available at:
<https://www.sra.org.uk/sra/how-we-work/reports/advocacy-in-the-solicitors-profession/>.

Continuing Competence review published

- 15 We have published our [thematic review of the implementation of the continuing competence requirements](#). The review looks at how law firms and solicitors have responded to the Continuing Competence requirements that we introduced in 2016 (moving away from requiring solicitors to carry out a mandatory 16 hours of approved training to making an annual declaration on what they have done to maintain their competency). The review was discussed by the Policy Committee earlier in the year.
- 16 The review shows that most firms and solicitors implemented the scheme without significant problems. 40 percent of law firms report that they have increased the amount of learning and development support offered to their solicitors. Half of firms (52 percent) say that levels of learning and development have remained unchanged, with just 9 percent reporting a reduction in the focus given to this area. Solicitors also told us that our approach has helped them to better identify their needs, with learning and development appearing to be more relevant and targeted.

Upholding Professional Standards Report

- 17 We published our Upholding Professional Standards report on 25 July. This new report outlines our investigation, supervision and enforcement work, setting out information about how we handle complaints, how we conduct investigations, and how we decide whether and what sort of regulatory action is necessary. The report can be viewed at the following link: <http://www.sra.org.uk/static/19-07-25-Upholding-Professional-Standards-report-2017-18.pdf>.

Firm Diversity

- 18 Our Firm Diversity data collection exercise has concluded with around 93% of firms submitting their data. We have worked closely with non-respondent firms to secure their data and will continue to do so. Ultimately, we may need to refer firms which do not comply into our disciplinary processes.
- 19 We have reported on the outcomes of the LGBT+ Mentoring Scheme we are delivering together with The Law Society - <https://www.sra.org.uk/solicitors/resources/diversity-toolkit/lesbian-gay-bisexual-transgender-inclusion>. The scheme gave law firms the opportunity to receive free mentoring from top performing law firms in the Stonewall Workplace Equality Index on developing their approaches to LGBT inclusivity.

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- 20 We launched our campaign <https://www.sra.org.uk/disability> to encourage law firms to support disability inclusion in the profession. This follows our Disability in the Workplace online survey that I covered in my last report. We have been engaging with disabled solicitors and legal professionals about disability in the workplace and the challenges some people face, as well as what law firms can do to make their business more inclusive.

<p>Objective 2: We will make sure our regulatory requirements are proportionate, providing solicitors and firms with the flexibility to innovate and better meet the needs of members of the public and businesses, while maintaining appropriate levels of public protection</p>	<p>On track</p>
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- 21 We are on track to deliver this objective.

Legal Access Challenge

- 22 The Legal Access Challenge application process has closed. We received 117 high quality, eligible applications from entrepreneurs, legal professionals, technologists, law schools and charities.
- 23 Following the high number of entries, the total prize fund of the Legal Access Challenge was increased by £250,000 with support from the Regulators' Pioneer Fund. The additional money will be allocated to the total prize fund – increasing the prize money available to £500,000 and doubling the number of finalists from four to eight and overall winners from one to two. In September eight finalists will now each receive a £50,000 development grant to build on their proposal over a six-month period. At the end of this period the final two winners will each receive an additional £50,000 prize.

SRA prescribed circumstances

- 24 The concept of prescribing how solicitors or authorised firms must act in particular circumstances is provided for in the current Solicitors Handbook and has been carried into the new Standards and Regulations. It gives us the authority to set a marker when we consider it necessary to prescribe the detail relating to something a solicitor or authorised firm can or cannot do. This provides us with flexibility to cater for any future developments or changes in circumstances so that we can introduce or adapt the relevant circumstances or criteria as and when we consider necessary. So, for example, we might want to prescribe that firms can only act in a certain way or must provide us with information in a prescribed manner to address an emerging risk. The circumstances or criteria that we prescribe in these regulatory statements are mandatory and a failure to comply with the prescribed statements would be treated in the same way as a breach of any other of our regulatory requirements.

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- 25 As part of the implementation of the Standards and Regulations we have used our delegated authority to make two prescribed statements under the new Code and SRA Accounts Rules. The first prescribed statement confirms that individuals will be permitted to hold client money in their own name if they are a solicitor, REL or RFL working in a non-commercial body. We confirmed this policy in our response to the first Looking to the Future consultation in 2017. The prescribed statement also sets out provisions from the new SRA Accounts Rules which are relevant to solicitors, RELs or RFLs working in a non-commercial body.
- 26 The second prescribed statement sets out the circumstances in which a law firm may withdraw a residual account balance from a client account. It reflects the existing position. Where a residual client account balance is below £500, firms do not need our authority to withdraw the balance and pay it to charity. However, we do set out appropriate steps that firms should take to trace the rightful owner before this is done. Where firms have a residual client account balance of over £500, they must apply to the Professional Ethics team for approval to withdraw that balance.
- 27 The LSB has confirmed that it does not need to approve these statements but would like to see final versions for information. The statements will be published on our website after this Board meeting.

Reviewing fees

- 28 We always intended to review our regulatory fees once the new Standards and Regulations were implemented. They were last reviewed in 2011 and we plan to begin reviewing them in the second half of 2020. The review will consider our approach to both practising fees and administrative fees for making applications to us. In the latter half of 2020, we will be able to calculate how much our applications cost to administer more accurately under the new Standards and Regulations and using our new IT systems, as well as understand whether any change in the current firm-individual fee split is warranted.

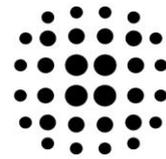
Objective 3: We will increase the availability of relevant and timely information to help people make informed choices in the legal services market

On track

- 29 We are on track to deliver this objective. There are no updates to report since the last Board meeting.

Objective 4: We will make sure that our regulatory arrangements work as effectively as possible for the public, businesses, solicitors and firms in the context of constitutional developments within the UK and any new relationship with the EU

On track



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30 We are on track to deliver this objective.

Brexit update – preparing for an October no-deal

- 31 We are in a good position to implement Brexit. Rules making amendments to our current Handbook are in place and come into force on 31 October. The Chair has previously been delegated authority to revoke or amend the date they come into force if the exit date changes and the Board is asked to delegate authority to the Chair to make further Brexit changes to our current Handbook as considered necessary or appropriate.
- 32 We are also currently finalising the Brexit changes to the Standards and Regulations version of the rules and ask the Board to delegate authority to the Chair to make those rules before 25 November 2019, and if necessary, revoke them or amend the date they come into force if exit date changes.
- 33 Communications are planned over the next few months, which include updating our Brexit webpage, alerting firms of the 31 October cut-off date for Registered European Lawyer (REL) registration and discussing next steps at our Compliance Conference in October. Operationally, we are prepared for the expected spike in the number of European Lawyers wanting to become RELs during October in the run up to the cut off.
- 34 The MoJ has asked us to agree a basis for information sharing with our counterparts in the EU27 countries post Brexit. The Law Society has helped us to make contact with the right officers and to date, the response has been positive to information sharing from those jurisdictions which have come back to us. We are working up a draft framework and some examples where information sharing has been used to share with them.

Recommendation: the Board is asked to delegate authority to the Chair to make further Brexit changes to our current Handbook as considered necessary or appropriate.

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Implementing a permanent fee limit for claims management activities

- 35 The Financial Guidance and Claims Act 2018 introduced an interim fee cap that prohibits Claims Management Companies (CMCs) and law firms charging fees of more than 20 per cent of the amount recovered for handling claims for mis-sold payment protection insurance. This came into effect in July 2018. The Act also introduced a requirement on us (for law firms) and the Financial Conduct Authority (FCA) (for CMCs) to make rules that specify fee levels for certain claims management work covering the broader area of 'financial products or services' on

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a permanent basis. This is as well as an option to make rules to specify fee levels for claims management related work of any type.

- 36 We are working closely with the FCA and are in discussion with other legal regulators to introduce rules that specify the level of fees that law firms regulated by us can charge for certain claims management work relating to financial products or services. We aim to come to the Board with further details early next year ahead of a public consultation.
- 37 We will soon be sending a short survey to approximately 2000 law firms who might be involved in claims relating to financial products or services to ask for information about the level of compensation received and the work undertaken in processing claims. We will compare any information we collect with similar data being collected by the FCA in relation to CMCs. The survey results will help us understand the impacts of different fee options.

Objective 5: We will work better together, and with others, to improve our overall effectiveness, our responsiveness and the delivery of our regulatory functions.

On track

Section 2: Operational Performance

Finance

- 38 Our financial performance is in line with our reforecast of the budget which took place during May.

KPIs

- 39 Our KPI results for July 2019 were:
- 84% of conduct matters closed within 12 months of receipt against a target of 93%. We expect to be back in line with the 93% target by the end of November.
 - 91% of Compensation Fund claims were closed within 12 months against a target of 90%.
 - 83% of medium / high risk applications closed within 3 months in Firm Based Authorisation against a target of 90%. As we reported to the Board at the last meeting, we expect to be back on target by the end of October.
- 40 We have been routinely achieving and exceeding our Contact Centre KPI (80% of calls answered in 20 seconds). Due to increased staff turnover both internally and externally, we have planned for a drop in performance in August to focus efforts on building the unit's capability for PCRE. We are investigating the increase in

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staff turnover and have plans in place to be back on target by the end of September in time for the increased demand during PCRE.

Compensation Fund Claims

- 41 We are seeing an increase in small claims on the Compensation Fund, which we believe could continue over the coming months. Whilst this will not have a significant impact on the Fund itself, it could have an impact on the transactional costs associated with the Fund. We are currently reviewing our approach to reduce the impact as much as possible.

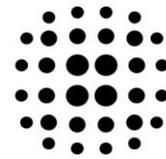
Section 3: External Developments, Publications and Engagement Activity

LSB updates

- 42 On 24 July, the [LSB published its revised Internal Governance Rules \(IGRs\)](#) and new accompanying statutory guidance. This follows two consultations. They come into effect immediately with a 12-month transition period in which to comply with the rules. By the end of the transition period, we will be expected to have assessed our compliance and used that information to certify compliance with the IGRs. The LSB will expect a separate submission from us as the regulatory body and The Law Society as the approved regulator. After the transition period has ended, compliance with the IGRs will be monitored through the regulatory performance framework.
- 43 The LSB has written to us and The Law Society confirming its approval of the 2019/20 fee determinations for practising certificates, recognised sole practices, recognised bodies and licensed bodies, following our application of 19 July 2019. We have also received approval for Compensation Fund contributions for 2019/20.
- 44 We have received an [Exemption Direction from the LSB](#) in relation to an application we made to make amendments to our fee determinations to refer to the new Standards and Regulations and to widen the application of leave equivalent to maternity leave. The Direction was issued on the basis that the changes do not represent a shift in our regulatory approach or policy.

Stakeholder Engagement

- 45 Our ongoing engagement programme with stakeholders continues. We have met with a delegation from the Lawyers Administration of the People's Republic of China Ministry of Justice. We have also welcomed a delegation from the International Conference of Legal Regulators (ICLR) to the Cube for discussions on operational detail, ahead of the conference itself which took place in Edinburgh last week. Our visitors included regulators from Singapore, Australia and New Zealand. We spoke at the ICLR conference itself on issues including law tech, transparency, professional regulation outside the workplace and the future of regulation.



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- 46 We are working in partnership with key organisations to hold fringe events at all three political party conferences. Our themes are the impact of technology, and importance of a progressive and inclusive workplace.
- 47 We held the second event in our small firms roadshow in Bradford on the 23 July with over 50 solicitors and legal professionals attending. Board member Selina Ullah introduced the sessions. We have also delivered a further small firm event in partnership with the Society of British Bangladeshi Solicitors. Meetings have also taken place with the City of London Law Society and the Legal Services Consumer Panel since the last Board meeting.

Author Paul Philip, Chief Executive
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