

CLASSIFICATION – PUBLIC

This paper will be published

Chief Executive's Report

Purpose

- 1 This report provides an update to the Board on our priorities and any key developments that it needs to be aware of. It also provides information on important external developments and our engagement activity with key stakeholders.

Recommendations

- 2 The Board is asked to:
 - a) consider the Chief Executive's report
 - b) agree the change of accounting reference date for SRA Limited to 31 October.
 - c) agree the SRA Ltd accounts for May 2020 – May 2021, attached at annex 1

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

CLASSIFICATION – PUBLIC

Chief Executive's Report

Update against priorities / key developments

Practising Certificate Renewals Exercise (PCRE)

- 3 As the Board is aware, we adjusted this year's PCRE renewal window from 1-31 October to 11 October – 11 November 2021. Overall, the process was a substantial improvement on last year when we had teething problems with our new IT system. Following a programme of work this year to improve the IT system for customers, we have seen a positive reaction from both firms and individuals who have completed their renewals, with an 18% reduction in customer contact to our Contact Centre when compared to October 2020.
- 4 At the time of writing, 40,567 applications had been submitted (97.7% of expected applications) and 97.1% of budgeted invoices had been raised with 87.9% of cash received.
- 5 There are a small number of firms who have had some problems with our system this year. We are aware of them and have remediation measures in hand.
- 6 The PCRE window always drives significant traffic to the Contact Centre. In anticipation, we had planned and resourced appropriately and 70% of calls to the Contact Centre were answered within 60 seconds.

Professional Indemnity Insurance (PII)

- 7 The main PII renewal date for most firms is 1 October. 42 firms have informed us that they entered the Extended Policy Period (EPP) on 1 October 2021 as they did not renew their insurance or secure new insurance. Reasons for this include: ill health, increased policy premiums and delays with brokers. This is a downward trend - 47 firms entered the EPP in 2020 and 56 firms in 2019. We will oversee the 42 firms to make sure that they manage to secure insurance or close down in an orderly manner by 29 December 2021.
- 8 We have started our Insured Firms Report process for November where we ask all participating insurers to confirm the firms that they insure. After comparing this with data we hold, we then identify any firms that may not hold insurance and engage with them to reduce the risk to the public.
- 9 Following the last Board discussion, our application for changes to our PII arrangements to clarify the scope of cover for losses arising from cyber-related incidents was submitted to the Legal Services Board (LSB) and has been approved.



SRA BOARD
7 December 2021

CLASSIFICATION – PUBLIC

Anti-Money Laundering (AML)

- 10 We responded to two consultations by HM Treasury in October. Following a Board workshop on the issues, we submitted a response on ten key policy areas to the wider call for evidence into the AML regime, supervision and the risk-based approach. We expect Treasury to report back on the call for evidence in summer 2022. We also expect changes to proceeds of crime legislation in spring 2022.
- 11 We published our [first AML annual report](#), as required by the Office for Professional Body Anti-money Laundering Supervision (OPBAS) under the money laundering regulations in October. The report covers the financial year to April 2021 and details our supervised population, proactive supervision, enforcement work and risks and trends.
- 12 We [published](#) the findings from our thematic review into the role of the money laundering compliance officer (MLCO) and money laundering reporting officer (MLRO) in November. The guidance is aimed at helping those in these roles meet their obligations in the regulations and provides best practice guidance on how to succeed in these important roles.

Innovation and technology

- 13 Our Regulators' Pioneer Fund (RPF2) project that focuses on technology to improve access to justice has started and key activities include: mapping existing legal advice provision, workshops with advice agencies to explore gaps in service and using lawtech to increase pro-bono services.
- 14 We are leading on a professional services Lawtech Working Group as part of the Department for Business, Energy and Industrial Strategy's (BEIS) international Agile Nations programme. Our project featured as the lead in press coverage about Agile Nations. We have three workstreams on: collaboration, communication and a consumer-focused workstream.

Competition and Markets Authority (CMA)

- 15 We have just launched our unbundling pilot. Unbundling is the term used to describe when a set of tasks that make up a legal service is divided between the consumer and legal service provider and was a focus in the CMA's review of legal services. This will run until March 2022. The pilot will test the experiences of providers and users of unbundled services in family law. It will also help build our understanding about whether and how legal services can be unpacked into standardised products as suggested by the CMA.

LawTechUK

- 16 The second LawTechUK Sandbox pilot got underway in October. Eight start-ups were confirmed in the second cohort: Avvoka, Feesier, Hunit, LegalMe, Lexyfi, Smarter:Contracts, Valla and What Visa?. We took part in the launch event and are providing support to the start-ups. We are also supporting LawTechUK's Data

CLASSIFICATION – PUBLIC

Working Group that is running in parallel to the sandbox. This is looking at what datasets are available for the sandbox as well as privacy and ethical considerations surrounding their use.

Restricting fees charged for certain claims management activities

- 17 Following discussion with the Board in June about how to meet our duties under the Financial Guidance and Claims Act 2018, we published a discussion paper to obtain further data from stakeholders, which ran from 7 July to 1 October 2021. Alongside this we ran a survey with law firms and solicitors who carry out claims management activities, which received 94 responses, and held two focus groups with members of the public. We have also carried out an engagement programme which has included 1-2-1 discussions with organisations including Citizens Advice, the Financial Ombudsman Service and representatives of the profession.
- 18 In line with the Board's view that our approach for consultation should mirror the Financial Conduct Authority (FCA) model for implementing the new duty, we have continued to work closely with the policy team there as they finalise their position. The FCA is expected to announce its final position before the end of the year with some amendments to their proposals based on the responses to consultation.

Strategic review of fees

- 19 We have completed our strategic review of fees. As previously highlighted, this review included an external analysis of our current model against the position of other regulators. This confirms that our current fees model is fit for purpose and consistent with best practice.
- 20 Our review has identified several specific changes to take forward. This includes consulting on our approach to maintaining the accuracy of our regulatory data related to non-practising solicitors on the roll, and the associated fee. We are currently working on the development of options. We are also planning to consult on our practising certificate discounting policy in 2022 and on changes to some of our authorisation fees in 2022/23.
- 21 We have also taken the decision to remove our fees for Certificates of Good Standing, Certificates of Attestation, duplicate Admissions certificates and extracts from the roll.

EDI Research Programme

- 22 Following the procurement exercise for our EDI research programme over the summer, we have appointed a research partner, the University of Exeter, to look at the difference in legal qualification outcomes by ethnicity, often known as an 'attainment gap'. The research will be completed by the end of 2023.

CLASSIFICATION – PUBLIC

- 23 We are moving into a second phase of the procurement for the research in relation to the overrepresentation of Black, Asian and minority ethnic solicitors in our enforcement process, as we were unable to appoint a suitable partner.

Evaluation of Standards and Regulations

- 24 We have completed the first-year evaluation, which was led by an independent research consultancy. The research considered the impact of the reform programme on individual solicitors, law firms, consumers and the wider legal services market. The first-year report provides an overview of the 'direction of travel' recognising that it is too early to understand the full impact of the reforms, which will be looked at in greater depth at year three and beyond. The results from the first-year study are though encouraging and include:
- no evidence of negative unintended consequences or harm to consumers
 - the majority of solicitors are positive about the impacts of reforms and more comfortable with principles standards than many had predicted, with many reporting that they have provided more flexibility around how they can practise
 - the number of freelancers has risen steadily to over 400, though not yet reaching the thousands some had predicted.
- 25 The report has a set of recommendations, which include: reviewing the restrictions for freelance solicitors providing immigration and claims management services and gathering more data about the profile of solicitors who practise from unregulated organisations. These findings will inform our planning for this year's policy work programme and the three-year evaluation. We will share a copy of the full report to the Board in advance of its publication shortly.

Risk Outlook

- 26 In November, we [published](#) a Risk Outlook report that gives the profession our view of the possible opportunities and challenges for the market in the short to medium term. This is the first in a series of short Risk Outlook reports that is more closely aligned with our horizon scanning work and intended to demonstrate our thought leadership. The report also includes a survey invitation for the profession to tell us about their view of the opportunities and challenges for them and consumers.

Solicitors Qualifying Examination (SQE)

- 27 The first SQE assessments took place on 8 and 11 November. 1090 candidates attempted the SQE assessments (Functioning Legal Knowledge 1 and Functioning Legal Knowledge 2), across more than 100 test centres in 26 countries. Candidates will get their results on 24 January 2022. We will also publish a SQE1 post-assessment report providing feedback about overall

CLASSIFICATION – PUBLIC

candidate performance, and the key results from the assessment, such as pass mark and pass rate.

- 28 Plans are on track for the first SQE2 assessment which will run in April 2022. Geoff Coombe, the SQE Independent Reviewer, has reported on preparations for SQE2 and has confirmed that he found no significant impediment with the plans for SQE2 'go-live' and concluded that plans are in place to deliver a high quality, fair, reliable, defensible examination. We will publish this report in due course.
- 29 The outputs of the SQE in Welsh Pilot, which ran in September, will also be available towards the end of the year and a report published soon after. The pilot provided the opportunity for candidates to answer SQE2 questions in Welsh to test the process for translation and marking of questions.
- 30 We have begun to receive applications for exemptions from SQE from qualified lawyers. We have exemptions in place from the whole of SQE for Irish and Northern Irish solicitors and from SQE2 for Scottish solicitors. We have also granted an exemption from SQE2 for Danish advokats and Hong Kong solicitors. At the time of writing, we had received 164 exemption applications from Hong Kong solicitors.

Review of Youth Court training records

- 31 We have reviewed the training records of solicitors practising in the youth court. This is part of our work to assure advocacy standards and designed to help us identify if and how solicitors practising in this area are keeping their legal knowledge and skills up to date.
- 32 In the main, we found good practice in how solicitors maintain their competence. However, this was not universal and there are some solicitors who fall short of best practice. We plan to publish a summary of our findings in December 2021. This will set out the key messages for solicitors and firms practising in this area and what we will do next.

SRA Law Society (TLS) collaborative working protocol

- 33 There are three areas listed in the protocol that we have agreed to work collaboratively with TLS on in particular: technology, AML and equality, diversity and inclusion (EDI).
- 34 We continue to engage with TLS on AML issues. We have been invited to speak at the Law Society Risk and Compliance conference in the spring, and the chair of the Law Society AML taskforce spoke at our Compliance Conference in November.
- 35 We have continued to collaborate with TLS on our quality indicators and now the unbundling pilots, with representatives participating in both working groups. On technology and innovation, we have held joint events, such as the recent

CLASSIFICATION – PUBLIC

podcasts with innovators and TLS have been supportive of the Agile Nations work.

- 36 On EDI, we are working closely with TLS to make sure we are clear and consistent in communicating the diversity profile of solicitors and using a range of opportunities to collaborate with others to promote the importance of collecting and using diversity data to drive progress. For example, our joint webinar in October 2021 with TLS, Social Mobility Commission and PRIME that focused on using data to drive social mobility. We also continue to work with TLS on our engagement to realise the benefits that the SQE can bring to the diversity in the profession, focusing most recently on the provision of reasonable adjustments for disabled candidates, including assistive technology.

Accounting reference date

- 37 SRA Limited was incorporated on 18 May 2020, although it did not begin operating until 1 June 2021. Every company must prepare accounts that report on the performance and activities of the company during the financial year. For new companies, the financial year starts on the day of incorporation. The financial period ends on the accounting reference date.
- 38 For all new companies, the first accounting reference date is set as the last day in the month in which its first anniversary falls. The subsequent accounting reference dates will automatically be on the same date each year. For SRA Limited therefore the first accounting reference date is 31 May 2021.
- 39 The Law Society Group prepares financial statements to the 31 October each year and it has always been our intention to continue with the same year end. We therefore need to formally agree and approve the change of accounting reference date to 31 October.

Recommendation: the Board is asked to agree the change of accounting reference date for SRA Limited to 31 October.

Deadline for first SRA Ltd accounts

- 40 The change of the accounting reference date to 31 October allows two options for the first accounting period. Either the first accounting period could be extended (18 May 2020 - 31 October 2021) or accounts prepared from 18 May 2020 - 31 May 2021 with a second, short, accounting period from 1 June 2020 - 31 October 2021.
- 41 The deadline for filing first accounts for a new company is 21 months from incorporation, therefore for SRA Limited this would be 18 February 2022. If the first accounting period was extended, this deadline would not be achievable given the proposed audit timetable for the year end.
- 42 In order to meet the first filing deadline, we have prepared accounts for the period 18 May 2020 - 31 May 2021 as a dormant company. These are included at annex

CLASSIFICATION – PUBLIC

1 for Board approval. We are preparing accounts for the period 1 June 2021 (when we started operating) to 31 October 2021. These will be considered by the Board in March 2022.

Recommendation: the Board is asked to agree the SRA Ltd accounts for May 2020 – May 2021, attached at annex 1.

Future Workspace

- 43 Our staff returned to the office one day a week from 6 September and this continues to work well. Lessons learned since returning to the office in September are helping to inform how we embed hybrid working as part of business as usual moving forwards.
- 44 The work on our future workspace at The Cube continues and remains on track to deliver all primary objectives in spring 2022. Floors 11 and 12 of The Cube were handed over to our supplier 'Area' in October and this marked the start of a 17-week refurbishment programme. A programme office has been established where staff can see images of the new designs, take a virtual tour of the new space, leave feedback, and ask any questions they may have.
- 45 We are also focusing on our London presence and exploring suitable alternatives to Martin Lane, in readiness for our lease ending in March 2022. Our requirements on location, proximity, accessibility, available amenities and transport links will be at the forefront of our selection process. Shortlisting possible options and site visits are planned for early December.

Information Commissioner's Office report

- 46 In late October, we became aware that a solicitor's MySRA account had been taken over by a third-party. This appears to have been an attempted vendor fraud by posing as a genuine solicitor.
- 47 Steps were taken to secure the account and a scam alert was issued to protect consumers and organisations.
- 48 Given the serious nature of the incident, we reported it to the Information Commissioner's Office (ICO) and have provided information to relevant agencies. The ICO has confirmed that it plans to take no further action. It has made some recommendations in its response to our report that we are reviewing. A full review of the incident will be provided to the Executive.

27001 Certification

- 49 We have for some time been aligning our security management approach to ISO:27001 as a matter of following best practice. We have considered the benefits of this accreditation including reputational, risk mitigation and improved compliance and agreed to progress towards certification. This will provide independent assurance that we have in place an effective system to identify and

CLASSIFICATION – PUBLIC

manage information security risks in line with internationally recognised best practice.

- 50 A formal proposal went to our internal programme group in September, and we agreed a project for formal certification, subject to the Board being informed and provided the opportunity to comment. This was discussed at Audit and Risk Committee who were supportive of the approach. This would demonstrate to our stakeholders that we meet the recommended standards and take all the necessary steps to safeguard the sensitive information we hold. It also makes incidents less likely to occur and reduces the impact when they do happen.

Professional Indemnity Insurance and Directors & Officers insurance cover

- 51 Professional Indemnity Insurance (PII) and Directors & Officers (D&O) insurance is arranged annually on 1 November through our current insurance brokers under a long-standing arrangement which covers the SRA and The Law Society as a group policy. The primary cover of PII and D&O insurance, which is £10 million for each policy, is shared on a pro rata headcount basis between the SRA and The Law Society. In respect to PII, there is also a further excess layer of cover for claims up to £50 million, the cost of which is borne by the SRA. This was introduced in 2017 due to concerns regarding major cases, fraud and financial risks.
- 52 Since 2018 the costs of primary PII, additional layers cover, and D&O cover have increased year on year to a point where there is a need to review our future insurance requirements set against the current level of risks faced by the SRA. We will be taking forward a work programme to explore options and engage with the Board when appropriate.

Board forward planner

- 53 Attached at annex 2 is the current forward planner for upcoming Board meetings for information and discussion.

External Developments and Engagement Activity

Legal Services Board

- 54 In September I reported on the Legal Services Board's (LSB) review of the Bar Standards Board's (BSB) governance arrangements under the 'well-led' standard of the Regulatory Performance Assessment Framework and the learning from it that we could apply to our own work.
- 55 At the end of September, the LSB published a similar [report](#) following a review of the governance arrangements of the Faculty Office of the Archbishop of Canterbury. The Master of the Faculties, acting through the Faculty Office, regulates the notarial profession in England and Wales.

CLASSIFICATION – PUBLIC

- 56 We also reviewed this report for any learning points for our own work. The particular governance structure at the Faculty Office means that many of the LSB's points are not directly relevant to us, while other findings are very similar to those in the report on the BSB. We have however, identified useful points on the need to understand the issues facing consumers, which we will feed into our consumer segmentation work, being clear about our approach to consultation and the need to keep our publications policy under regular review.

Stakeholder Engagement

- 57 Our ongoing engagement programme with stakeholders continues. We held a number of fringe events across the political party conferences in partnership with key think tanks that focused on diversity and inclusion, innovation and technology and access to legal services. We were joined on our panels by a range of parliamentarians.
- 58 Since my last report to the Board, we have held liaison meetings with a range of stakeholders including speaking at the Sole Practitioners Group Conference and the virtual International Conference of Legal Regulators. I met with the Legal Services Consumer Panel and discussed our key priorities.
- 59 In Wales, we continue to develop our relationships and understanding, speaking at the Legal Wales Conference and Legal News Wales Pro bono week event. The Chair and I also met with the Attorney General in Wales. Two face to face events were also delivered in Wales in October: SRA Innovate and an SQE networking event.

Author Paul Philip, Chief Executive

Date 30 November 2021

Annexes

Annex 1 SRA Ltd Accounts for the period 18 May 2020 - 31 May 2021

Annex 2 Board forward planner

NB: annex 2 of this paper will not be published because it relates to emerging strategy or policy