

SRA BOARD

5 April 2022

CLASSIFICATION – PUBLIC*This paper will be published***Amending the Articles of SRA Limited**

Reason for paper	This paper follows the decision of the Board on 19 January 2022 to withdraw the application for charitable registration and revert to non-charitable status, and addresses the changes required to the Articles of SRA Limited.
Decisions(s)	The Board is asked to approve the amended Articles for SRA Ltd at annex 1, and to delegate to the Chair the agreement of minor changes which may be proposed by the Law Society ahead of formal adoption.
Previous Board and committee consideration	The Board considered the changes required to SRA Ltd's articles following withdrawal of its application for charitable status at its meeting on 19 January 2022.
Next steps	As sole member of SRA Limited, the Law Society will be required to approve and adopt the updated Articles of Association. They will be looking to formally resolve to approve and adopt the Articles on 6 April 2022, or as soon as possible thereafter.

**If you have any questions about this paper please contact: Juliet Oliver,
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Summary

- 1 This paper addresses the changes required to the Articles of SRA Limited following the decision to withdraw the application for charitable registration in January 2022.

Background

- 2 As Board members will recall, in May 2020 we incorporated Solicitors Regulation Authority Limited ('SRA Ltd') (as a wholly owned subsidiary of TLS but with a distinct and separate legal personality). Following a decision in September 2020 that SRA Ltd should be registered, its Articles of Association for SRA Ltd were amended to a charitable form in November 2020 and, that month, our application for registration as a charity with the Charity Commission was submitted.
- 3 On 19 January 2022 the Board decided to withdraw the application for SRA Ltd to obtain charitable registration on the basis that pursuing the application might require us to compromise on the work which we wished to do in the future. Having withdrawn the application we are required to amend the Articles of SRA Limited to non-charitable form.

Article Changes

- 4 We have amended the original incorporation Articles for SRA Ltd. These have been amended in order to ensure that the articles appropriately reflect our status as an eligible body for VAT purposes in relation to our education and training functions, and non trading status in relation to corporation tax.
- 5 A copy of the updated Articles can be seen at annex 1, alongside a comparison document showing the changes we have made to the May 2020 version at annex 2.
- 6 The key aims of the amendments are to provide that any surplus cannot be used as profit and applied for purposes other than that for which it was collected, as follows:
 - That profits cannot be distributed to the Law Society as the member of the company, and should the company be wound up, assets must be used to perform the same regulatory objects for which they were collected.
 - Confirming our ability to accrue a surplus for the purpose of holding reserves, and clarifying that any surplus above our target reserves level would be taken into account in setting subsequent practising certificate fee levels.

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- 7 The amendments also provide that any profits derived from education and training, are ringfenced for designated purposes which relate to the continuance or improvement of those services.
- 8 We have engaged with the Law Society in relation to these changes, and they have raised no issues or concerns with the amended articles, and proposed minor drafting changes (which have been taken into account in the attached version). Subject to agreement to the new articles by the Board, the Law Society intend to consider these for approval and adoption at their Board meeting on 6 April 2022.

Recommendation: the Board is asked to approve the amended Articles for SRA Ltd at annex 1, and to delegate to the Chair the agreement of minor changes which may be proposed by the Law Society ahead of formal adoption

Assurance protocol

- 9 In June 2021 the LSB approved minor changes to the Assurance Protocol between the Law Society and SRA Limited to reflect the Charity Commission's oversight role and ability to intervene. Following adoption of the non-charitable articles, we will reverse these changes and the Law Society will apply to the Legal Services Board for approval of the revised protocol.

General Regulations

- 10 We have been advised that, whilst the changes to the articles should be sufficient to demonstrate our tax position, as above, it would be desirable to entrench the position by including a provision in the Law Society's General Regulations. This would restrict the Law Society as sole member of the company from receiving, or exercising its right to distribute, profits of the company, or seeking to alter its articles at will; thereby demonstrating its clear intention not to cause us to pay out any profits.
- 11 A change to the General Regulations would need to be made by a 2/3 majority vote of the Law Society Council. We are in discussion with officers at the Law Society in relation to this change, and have raised with the Chair of the Management Board.

Next steps

- 12 As stated above, following the Board's decision we will ask that the Law Society, as sole member of SRA Limited, approve and adopt the updated Articles of Association. They plan to consider the matter on 6 April 2022. We will then arrange for the requisite filing at Companies House to take place.

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Supporting information

Links to the Corporate Strategy and/or Business Plan and impact on strategic and mid-tier risks

- 13 This paper relates to objective 1 in the corporate strategy as regards the delivery of an effective, tax efficient corporate vehicle.

How the issues support the regulatory objectives and best regulatory practice

- 14 The issues in this paper do not directly impact on the SRA's approach to regulatory policy or practice.

Public/Consumer impact

- 15 Whilst the issues in this paper have limited impact on consumers, it does discuss tax matters, ensuring our ability to reduce the VAT charge to candidates for the SQE, and to maximise the use we are able to make of the funds available to us – which derive from the profession and are in turn ultimately passed onto consumers of legal services and aspiring solicitors.

What engagement approach has been used to inform the work and what further communication and engagement is needed

- 16 The issues in this paper were previously discussed by the Board on 19 January 2022. We have also engaged with the Law Society as sole member of SRA Limited.

What equality and diversity considerations relate to this issue?

- 17 We consider it important that we can deliver our functions through a tax efficient vehicle to ensure sound stewardship of the funds that we levy from across the full diversity of the profession and firms.
- 18 The requirements surrounding the vehicle delivering the SQE are key to ensuring that we are able to minimise VAT liability for solicitor candidates, enhancing social mobility and diversity within the profession.

How the work will be evaluated

- 19 There are no formal evaluation arrangements for the proposals in this paper.

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Date

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Annexes

- Annex 1** Amended articles for SRA Ltd
Annex 2 Comparison document showing changes to the May 2020 articles