Solicitors Regulation Authority

Client money in legal services: Notifying the SRA of changes to help identify and act on risks

Consultation

June 2026

Contents

About this consultation

This consultation is part of our Consumer Protection Review – focused on protecting client money held by solicitors.

Through the review we have identified the need for us to be able to collect different and more timely information from firms in certain circumstances to help spot and target risks.

This consultation sets out our proposed mechanism to achieve this and how we propose to use this in the first instances.

We are consulting on proposals to:

- make a rule to require firms to notify us of events that we will prescribe from time to time
- have the option of using fixed financial penalties (FFPs) to help ensure compliance with the proposed notification requirements
- use the new power in the first instances to require firms to:
    - pre-notify us of a merger or acquisition that is in contemplation and that has reached the Heads of Term stage or equivalent
    - notify us when they begin to receive or hold client money, having previously reported at authorisation or in their most recent practising certificate renewal that they do not do so.

The consultation period will end at 9.00 on Monday 17 August 2026.

How to respond

Online questionnaire

Our online consultation questionnaire is a convenient, flexible way to respond. You can save a partial response online and complete it later. You can download a copy of your response before you submit it.

Start your online response now

Reasonable adjustment requests and questions

We offer reasonable adjustments. Read our policy to find out more.

Contact us if you need to respond to this consultation using a different format or if you have any questions about the consultation.

Publishing responses

We will publish and attribute your response unless you request otherwise.

Background

The proposals in this consultation follow on from our November 2024 consultation Client money in legal services – safeguarding consumers and providing redress. This was the first formal consultation of the Consumer Protection Review.

The review was set up to look at steps we might take to better protect client money. This occurred against the backdrop of a changing legal landscape, with a significant increase in both the number and size of firms into which we have had to intervene to protect clients.

And with high-profile firm failures with significant sums of client money being stolen or lost.

We engaged extensively and, informed by the feedback we heard, consulted formally in November 2024 on a range of ideas and proposals about potential steps to help protect clients and their money. We explored fundamental long-term questions about whether the existing approach remains fit for purpose in two key areas:

- the current model of solicitors ordinarily holding client money
- funding the compensation scheme – which can provide redress to clients whose money has been lost or stolen in certain circumstances.

We also explored potential improvements to the current system that could help protect client money in the near term.

Following this consultation, we concluded that there is a strong case for considering fundamental, transformational reforms to the model of holding client money and how the profession pays for redress. However, these are complex issues that cannot be quickly resolved.

We decided that our immediate priority would be taking forward three key areas from our November 2024 consultation that focus on strengthening protections for client money within the current system, to make a difference more quickly. These are:

- improving the accountants' reports regime
- strengthening the checks and balances provided by compliance officers
- improving oversight of firms significantly changing their profile including as a result of sales, mergers and acquisitions.

In December 2025, we followed with a further consultation – Client money in legal services: protecting the client money that solicitors hold. This set out proposals around the first two changes to the existing system listed above. We have now made rules to provide for changes to improve the accountants' reports regime and to strengthen the checks and balances provided by compliance officers.

In that consultation, we also set out our direction of travel in relation to improving our oversight of firms. We said that to enable us to better spot and target risks, we think we will need to collect additional, more timely information from some firms when they are changing their profile. This new consultation proposes a rule that we think will

effectively facilitate us collecting that information, along with proposals for how the rule would be used in the first instance.

The need to collect appropriate timely information to better spot and target risks goes beyond the areas considered in the Consumer Protection Review and we will likely require notifications in different contexts. For example, we will shortly be consulting on proposals relating to the notification of third-party litigation funding.

Looking forward, we are returning now to some of the potential longer-term regulatory reform questions raised in the initial Consumer Protection Review consultation. This includes those around the current model of solicitors holding client money and exploring alternatives, such as new opportunities raised by technological and system developments. We will engage widely as we move forward and we would consult on any future proposals for longer term change.

What we want to achieve

We are moving towards a more intelligence-led, proactive supervisory regulatory model. We are developing the ability to identify and address risk earlier, with the aim of reducing the instances and size of harms that might otherwise arise. Effective proactive regulation depends on having strong data foundations. We have already made significant progress in areas such as our risk and data capability to help us spot risks earlier and to increase our capacity to respond to them. But we know that we need to go further.

To identify and address risks earlier, we need the ability to call in real-time information from firms, targeted at areas or characteristics that may indicate a heightened risk of harm, particularly where that harm could be significant if the risk materialises. The Consumer Protection Review has highlighted gaps in the information that we currently receive. We currently collect information from firms at various points during their regulatory lifecycle. This includes at initial authorisation and when firms submit their annual returns through our practising certificate renewals.

Firms are also obligated to notify us of material changes to information previously provided to us. However, we do not specify the changes we expect to be notified about in detail. In practice, we are often not told of changes that we may consider material in the context of protecting client money at the time that they happen.

The focus of our information requirements has not historically been to strategically gather data for the purpose of understanding risk patterns, identifying risk characteristics or assessing any changes in the risk profile of a firm. So, information requirements are not calibrated for this purpose. Further, the information we receive is often historical or after the event – for example reporting client money held the previous year at renewals time.

We want to bolster our existing information requirements with the ability to prescribe that firms notify us of specific events that are important for helping identify risks and act on them. These are targeted at the big issues that we are concerned about because of the potential harm that may flow from them. This will complement the on-going obligation on firms to notify us of material changes to information previously provided to us.

The information that we will receive will also help us track activity and changing patterns in the market, which over time will ensure we are better able to identify developments that may require pro-active regulatory action.

Another important element of our move towards a more intelligence-led, proactive supervisory regulatory model is the introduction of a supervision taskforce, which is piloting proactive supervisory engagement with firms working in areas that pose significant risks. Learning from this work will help us take earlier action and develop a full supervision function over time.

What we are proposing

We are proposing to complement our existing information provisions with the introduction of a broad rule which will set the environment for us to require notification of specific events that we prescribe:

'You notify the SRA of any prescribed notifiable event as specified by the SRA.'

We would from time to time prescribe the events we will require a firm to notify us about through this rule, when we would require notification, and the information we will require from firms in notifying us.

We consider that this approach will help set the foundations for more proactive and intelligence-led regulation in a future-proofed way. A new, broad notification rule is beneficial as it will provide for us to respond with agility to the risks in the market as they change over time and recalibrate to focus on the biggest issues.

However, we would provide those we regulate with advanced notice of any plans to prescribe new notifiable events through the proposed rule and the reasons why, as well as what notification information we will require.

We would engage with those that would be affected, to hear feedback about how the change would likely work in practice and its likely impact.

We are proposing to prescribe two events in the first instance which will require firms to:

- pre-notify us of a merger or acquisition that is in contemplation and that has reached the Heads of Term stage or equivalent
- notify us when they begin to receive or hold client money having previously reported that they do not do so at either authorisation or through the last practising certificate renewals.

This is also a consultation on these first events we intend to prescribe, with details provided below.

Q1. Do you agree with our proposal to create a specific rule that firms must notify us of 'prescribed events' and our approach to prescribing events?

Applying fixed financial penalties

Timely and accurate notification of prescribed events will play an important role in enabling us to identify firms who may pose a risk to client money. Therefore, we consider that we should have the option of using all tools to help ensure compliance. We propose amending our arrangements to provide the option of using FFPs for clearly defined procedural and administrative failures such as late or incomplete notifications.

FFPs are already used effectively in other regulatory areas, such as breaches of transparency rules and failure to submit diversity data as required. Should we adopt FFPs, we would be consistent with existing FFP processes. This currently includes giving firms a period in which to bring themselves into compliance by rectifying the breach before the monetary penalty is issued.

We consider that the option of FFPs may offer an effective and proportionate way of helping ensure compliance with administrative requirements where timely compliance is important for providing the data we need to identify and target risks.

Continued or persistent non-compliance with our rules would result in more serious action in line with our enforcement strategy.

Q2. Do you agree that it is appropriate to have the option of applying the fixed financial penalties regime in the first instance where a firm does not comply with our notification requirements?

Initial prescribed events

We are initially proposing to prescribe two events where we consider that it is necessary and appropriate to have better, timely information to help us to identify potential risk that could result in significant harm if they are realised. We set details of the proposed prescribed events and notification requirements below.

Mergers and acquisitions

We are proposing to prescribe mergers and acquisitions as a prescribed notifiable event. We will require firms to pre-notify us of mergers and acquisitions.

Why

A merger or acquisition can significantly change the profile of a firm and therefore its risk profile. Potential risk scenarios that might arise include:

- Risks around misconduct. In the extreme merger and acquisition activity might enable or help to conceal misconduct. For example, firms may acquire other firms to access large client account balances. And firms may adopt complex business and governance structures across a group that make it harder to spot illegitimate money transfers.

- Risks arising from business models or incentives that are misaligned with client interests. This may occur, for example, where firms expand into areas of law or adopt financing arrangements that incentivise high volumes of cases or rapid growth without sufficient regard to client outcomes. Or if expansion is otherwise built on an unsustainable business model. These dynamics can lead to reduced quality of legal advice, poor client outcomes, and, in some cases, financial instability that increases the risk of disorderly firm closure.

- Risks arising from poorly executed change or expansion beyond a firm's capacity and capability. This includes, for example, inadequate systems, governance or expertise to support entry into new practice areas, or ineffective integration following an acquisition. These issues can negatively affect the culture in a firm, compliance, and the effective management of client matters. The resulting harms may include delays, errors, and a deterioration in service quality, as well as an increased risk of disorderly closure where change places unsustainable strain on the business with insufficient controls.

At the moment, we do not require notification that a merger or acquisition is happening. We do require that if a firm is closing as a result of merger or acquisition, they inform us of this within 28 days of completion in certain circumstances. This information is primarily gathered to help us to monitor the closing firm to make sure that client money and files are appropriately dealt with and to recalculate the

acquiring firm's turnover based annual regulatory fee. If the merger or acquisition will result in new owners, managers or other role holders to be approved, we will also be made aware of the change at the point that these approvals are required.

We do not currently have a requirement for firms to notify us of a likely merger or acquisition in advance. Nor do we ask for information for the purpose of forming a risk assessment related to the transaction.

In the responses to our previous consultation, there was significant support for us having greater visibility of firms changing their profile as a result of mergers and acquisitions. Many respondents referenced the benefits of capturing additional, more timely information in this area, including through pre-notification of such activity.

When will we require notification?

We propose prescribing a merger or acquisition that is in contemplation and that has reached the Heads of Term or equivalent stage as a notifiable event.

We are conscious that it is common for intended mergers and acquisitions not to proceed as discussions progress and due diligence is carried out. We want to target the notification requirements at transactions that are likely to happen. Therefore, we consider that the notifiable event should apply to mergers and acquisitions that have reached the Heads of Term or equivalent stage. The firms that we have engaged with have indicated that in most cases the acquiring firm or merging firms will be in a position to provide basic information that we will ask for at the notification stage to us at the Heads of Term or equivalent stage.

However, we are also conscious that the period between Heads of Term or equivalent stage and completion of the merger or acquisition can be variable. We consider that it would be beneficial to be notified at least 30 days prior to the likely completion date for the merger or acquisition and as close to 30 days in advance as possible. These timescales will provide for a helpful forward look of what mergers and acquisition activity is happening in the market with up to date and accurate information about them. Therefore, we would be well positioned to identify any emerging patterns that may warrant additional focus.

However, having requirements that specify a notification date in advance of an uncertain event, ie the completion of a merger or acquisition, is difficult. We would welcome views about whether we should also be looking to have a mechanism to provide for requiring notification information with the timescales indicated above and how we might achieve that while providing certainty for firms. This might for example involve linking the notification requirement to an additional point in the merger or acquisition process.

We also appreciate that there will be circumstances where the merger and acquisition process will happen on very fast timescales. For example, where there is a quick sale of a firm that is unable to continue operating because, for instance, it is financially unable to do so. We welcome views on whether we should have different notification arrangements in these circumstances and what a practicable and appropriate arrangement might be.

Notification details

We propose that notification of the event will require the firm to provide us with certain specific information. This will be basic information about the merger or acquisition under contemplation and the parties involved. The information will also help us to see whether there are characteristics present that may be an indicator of risk.

We propose that notification should include the following information:

- name of the acquiring and target firm
- turnover of the acquiring and target firm
- the value of client money held by the acquiring and target firms
- a breakdown of the areas of law practised by the acquiring and target firms
- expected completion date
- the number of acquisitions by the acquiring and target firm within the last 24 months, and whether this is the acquiring firm's first acquisition
- an indication of the structure after the proposed merger or acquisition ie whether it is likely to be:
    a) a single standalone firm (no parent, subsidiaries, or group)
    b) part of a simple group (one parent or a small number of related entities)
    c) part of a complex group (multiple entities, investors, or cross-business activities).

What happens next

This is a notification, not an approval process.

As stated earlier, the notification information that we will receive will help us track activity and changing patterns in the market. Over time, this will make us better able to identify market developments that may require pro-active regulatory action and/or engagement with other regulators and bodies if they indicate cross sector or wider public policy issues.

The information will also provide us with an up to date view of the merger or acquisition under contemplation and the post transaction position at firm/transactional level. Having been notified of the prescribed event, we may engage with the relevant parties further and ask for additional information as appropriate.

Q3. Do you agree with our proposal to prescribe as a notifiable event a merger or acquisition that is in contemplation and that has reached the Heads of Term or equivalent stage?

Q4. Do you have any comments about whether it would be beneficial to be notified of a merger or acquisition at least 30 days prior to the merger and acquisition completing and how this might be achieved, given that completion is an uncertain event?

Q5. Do you have any views on whether different arrangements are needed for requiring notification of mergers and acquisitions that will proceed and complete very quickly? Do you have any suggestions for a more appropriate arrangement in these circumstances?

Q6. Do you agree with the specific information that firms will be required to provide in notifying us of the prescribed event?

Firms starting to hold and receive client money

We are proposing to prescribe a firm starting to hold or receive client money as a notifiable event. This would apply where a firm has not previously held client money, or where it reported in the most recent renewals period that it did not hold client money.

Currently, firms are not explicitly required to notify us if they start to hold or receive client money until the next renewal period. This means that there is time in the interim for harm to potentially occur, and that we do not have an up-to-date picture of firms that hold client money.

Given the incidence and impact of client money being lost or stolen, it is important that we know who is holding what amounts of client money. This has a significant bearing on a firm's risk profile. In the responses to our November 2024 consultation, a prevailing view was that risks to client money should be at the core of our regulatory focus.

When will we require notification?

We propose to require that a firm should notify us within 28 days of starting to receive or hold client money.

Notification details

We propose to require that the firm:

- informs us of the date that it began to receive or hold client money
- informs us of the amount that it is holding at the point of notification and
- confirms that it is operating a client account as required in compliance with our Accounts Rules.

What happens next

The information will provide us with an up to date view of firms holding client money. Having been notified of the prescribed event, we may engage with the firm further and ask for additional information as appropriate.

Q7. Do you agree with our proposal around holding client money as a notifiable event?

Q8. Do you agree with our proposal that firms should notify us of the prescribed event within 28 days of starting to receive or hold client money?

Q9. Do you agree with our proposal to require that the firm:

- informs us of the date that it began to receive or hold client money
- informs us of the amount that it is holding at the point of notification and
- confirms that it is operating a client account as required in compliance with our Accounts Rules?

Equalities Impact Assessment

We have provided an initial Equalities Impact Assessment of these proposals alongside this document.

Q10. Do you agree with the assumptions about and assessment of potential equality, diversity and inclusion considerations in our initial impact assessment?

Q11. Are there any other factors or impacts on particular groups that we should consider or any other evidence sources that we should be considering?

Consultation questions

We are keen to hear your views on our proposals. An uninterrupted list of our questions is below.

Q1. Do you agree with our proposal to create a specific rule that firms must notify us of 'prescribed events' and our approach to prescribing events?

Q2. Do you agree that it is appropriate to have the option of applying the fixed financial penalties regime in the first instance where a firm does not comply with our notification requirements?

Q3. Do you agree with our proposal to prescribe as a notifiable event a merger or acquisition that is in contemplation and that has reached the Heads of Term or equivalent stage?

Q4. Do you have any comments about whether it would be beneficial to be notified of a merger or acquisition at least 30 days prior to the merger and acquisition completing and how this might be achieved, given that completion is an uncertain event?

Q5. Do you have any views on whether different arrangements are needed for requiring notification of mergers and acquisitions that will proceed and complete very quickly? Do you have any suggestions for a more appropriate arrangement in these circumstances?

Q6. Do you agree with the specific information that firms will be required to provide in notifying us of the prescribed event?

Q7. Do you agree with our proposal around holding client money as a notifiable event?

Q8. Do you agree with our proposal that firms should notify us of the prescribed event within 28 days of starting to receive or hold client money?

Q9. Do you agree with our proposal to require that the firm:

- informs us of the date that it began to receive or hold client money
- informs us of the amount that it is holding at the point of notification and
- confirms that it is operating a client account as required in compliance with our Accounts Rules?

Q10. Do you agree with the assumptions about and assessment of potential equality, diversity and inclusion considerations in our initial impact assessment?

Q11. Are there any other factors or impacts on particular groups that we should consider or any other evidence sources that we should be considering?