



Initial Equality Impact Assessment

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

June 2026

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Introduction

This initial Equality Impact Assessment (EIA) presents our assessment of the potential equality impacts of our proposals in our consultation on [‘Notifying the SRA of changes to help identify and act on risks’](#).

This consultation sets out our proposals to collect different and more timely information from firms in certain circumstances to help spot and target risks. These proposals involve a change to our rules, to provide that we require firms to notify us of events that we prescribe from time to time.

In addition, we are consulting on having the option of using fixed financial penalties (FFPs) to help ensure compliance with the proposed notification requirements.

This consultation proposes 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 most recent practising certificate renewals.

We propose that notification of the event will require the firm to provide us with certain specific information. This information will help us identify whether there are characteristics present that may be an indicator of risk. This is not an approval process. Having been notified of the prescribed event, we may engage with the firm further and ask for additional information as appropriate.

We have set out below the sources of evidence we have used to make this assessment, the mitigating and monitoring activities we could undertake during and after implementing the proposals we take forward, and the assumptions we have made.

We refer to firms as small, medium and large throughout this EIA. These terms are based on the number of partners in the firm:

- large – 50+ partners
- medium – 10–50 partners
- small – 1–9 partners.

Evidence that informs our assessment

We collect diversity data from firms we regulate every two years. This data gives us a picture of the diversity profile across the sector and enables us to analyse data by size of firm and type of work undertaken.

We have considered a range of evidence on equality, diversity and inclusion to inform this impact assessment, including:

- responses to our client money in legal services consultation in November 2024
- the data we hold about diversity in law firms, which provides a breakdown of characteristics by role, work types, and size
- research into the overrepresentation of Black, Asian and ethnic minority solicitors in reports to us
- engagement with third parties
- learnings from our thematic review of growth strategies.

We will continue to gather evidence through our consultation and other engagement with the sector.

This initial assessment is intended to help us understand potential equality impacts on people with protected characteristics. Our consultation and related engagement will help us decide which proposals to take forward and what mitigation may be needed. We welcome views on this assessment, including any additional unforeseen or unintended impacts we should consider.

Our proposals

A new rule

We propose to introduce a broad rule that would provide the framework for us to require notification of specified events:

‘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 of 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 would consider the impact of the rule on different groups in practice at the point that we prescribe a new notifiable event, as impacts are on those who will be required to notify us of an event. The general rule in itself does not have an assessable impact in this way.

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 most recent practising certificate renewals.

We consider these in more detail in the sections below.

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 our 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.

Firms would retain control over whether a penalty is incurred through timely compliance. We recognise that FFPs may have a greater relative impact on smaller firms. However, this risk can be mitigated by the design of the process, including clear guidance and opportunities for firms to remedy non-compliance and to make representations before any penalty is imposed. These features are intended to ensure that any impacts remain proportionate to the nature of the breach.

We would periodically review the operation of the FFP regime, including whether particular firm types are more likely to incur penalties or experience adverse impacts. If any disproportionate effects are identified, we would seek to understand the reasons for this and consider any appropriate mitigating action. Implementation would be supported by clear guidance, accessible submission routes and proportionate enforcement.

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.

A merger or acquisition can significantly change the profile of a firm and therefore its risk profile. Requiring firms to pre-notify us of mergers and acquisitions will provide us with a helpful forward look of what mergers and acquisition activity is happening in the market with up to date and accurate information about them. We would therefore be well positioned to identify any emerging patterns that may warrant additional focus.

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 level. Having been notified of the prescribed event, we may engage with the relevant parties further and ask for additional information as appropriate. To note, this is not an approval process.

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.

Based on the data we do hold, firms that acquired other firms during practising certificate renewal year 2024/2025 had a slight overrepresentation of white solicitors and women solicitors. However, we remain cautious about drawing conclusions from the evidence we hold. This is because we do not have data on acquisitions where the acquired firm continues to operate, which we suspect represents a significant part of the market.

Those in smaller firms, where Black, Asian and ethnic minority solicitors are overrepresented, may experience greater impact of the proposed changes if they have fewer resources to respond to any information requested.

We consider that our proposals are proportionate and require only basic information that will us identify and target known risks will be required in the first instance. The information we will require is:

- 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).

By limiting the notification requirement to mergers and acquisitions at the Heads of Term or equivalent stage, we are minimising the risk that we are placing a burden on firms where there is no certainty that the deal with progress.

The information we will require is not likely to be difficult to obtain. The firms we have already engaged with indicate that it should be easily available at the Heads of Terms or equivalent stage. Many firms will also need to provide similar information to other parties, such as insurers. Any subsequent engagement would be targeted at firms where the initial information shows particular risk characteristics and more information would be appropriate.

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 when they start to hold or receive client money until the next renewal period. This means there could be time between renewal periods for harm to potentially occur without us having an up-to-date picture of firms that hold client money.

Given the 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.

Our diversity data shows that firms who started to hold client money for the first time in the practising certificate renewal year 2024/25 were more likely to be small firms. This refers to firms who did not report that they were holding client money at the 2024/25 renewal but then reported that they did during renewals the next year. Of these, 94 firms told us that they had started to hold client money for the first time in the practising certificate renewal year 2024/25. From these 94 firms, 89 are classified as small firms. Medium-sized firms were a significantly smaller proportion of the group (4 firms out of 94 total). There were no large firms in this group. Black, Asian and minority ethnic solicitors are therefore more likely to be overrepresented among firms that will be impacted by this notification requirement.

However, we do not consider that requiring the notification of receiving or holding client money for the first will have a significant impact on any firm or individual. We are proposing basic information that is readily available, requiring 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.

There is already a requirement that firms inform us of any material changes to information that they have previously provided. Given the risks related to holding client money and the added compliance requirements, this could already be considered a material change. The notification requirement makes this explicit, specifying the notification information required.

Our consultation includes engagement with smaller firms specifically to ensure we have received their feedback on the impact of any new notification processes.

Initial conclusions

We do not anticipate that our proposals will have adverse impacts on individual solicitors or firms from protected groups to any significant degree. This is because the proposed notification requirements would require firms to provide information that should already be readily available to them when acquiring another firm or beginning to hold client money.

We are not proposing to move to a system of SRA pre-approval of prescribed events. This should ensure that the new requirements do not present a barrier to growth, and that we are able to identify and take proportionate action on risks where necessary.

There are already requirements that firms inform us of any material changes to information that they have previously provided. The notification requirements make this explicit, specifying the notification information required, in relation to specific events on a risk basis.

We consider the notification requirements we have set out above to be proportionate. We will review the process by which firms notify us and will monitor any adverse impacts on the profession.

Questions

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

Are there any other impacts on particular groups that we should consider, or any additional sources of evidence that should inform our assessment?