

Protecting consumers when solicitors use and/or arrange third- party litigation funding: Initial Regulatory and Equality Impact Assessment

July 2026

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Summary

This is our initial Regulatory Impact Assessment (RIA) and Equality and Diversity Impact Assessment (EIA). This is to support our proposals to strengthen the regulatory obligations that apply when solicitors and law firms use and/or arrange third-party litigation funding (TPLF). We have also considered our proposals in light of the Better Regulation Principles. You should read this document in conjunction with our [consultation](#).

We have considered regulatory and equality and diversity impacts in the development of these proposals. In the proposals we are consulting on, we have not identified disproportionate negative regulatory or equality and diversity impacts. Based on our analysis, we believe our proposals are a proportionate, targeted and legitimate regulatory response to address risks and harms we have identified.

Our proposals aim to protect consumers and maintain public confidence in the legal profession. We do this by providing stronger assurance that solicitors and firms using and/or arranging TPLF for consumer claims are doing so appropriately.

After this consultation closes, we will analyse the responses and decide how to proceed. We will publish our decision.

In the remainder of this document, we set out:

- our consultation proposals (page 4)
- our regulatory and equality and diversity impact assessments (page 6)
- the impact of our proposals on our regulatory objectives (page 13)
- the impact of our proposals on innovation and growth and other legal services regulators, and how we will monitor and evaluate our proposals (page 14).

Our consultation proposals

Although we recognise the important role litigation funding can play in increasing access to justice, it can also expose consumers and the wider market to certain risks. Only a very small proportion of all the law firms we regulate use and/or arrange TPLF for high volume consumer claims (HVCC). However, these firms often represent very large numbers of clients (approximately 10.8 million across firms participating in our declaration exercise). This means the impact of any failure to maintain high professional standards can be significant both for individual clients, and for public trust and confidence in the sector.

Our regulatory investigations, and wider work to build our understanding of the HVCC sector, illustrate a set of key harms and risks associated with failing to maintain high professional standards when using and arranging TPLF for HVCC and so addressing this is a priority.

The key harms and risks we have identified are:

- **managing risk:** some solicitors and law firms are not doing enough to identify, monitor and manage the legal and financial risks of third-party funded consumer claims, or to actively monitor business viability
- **maintaining independence and acting in client's best interests:** some solicitors and law firms may have failed to properly safeguard their independence from third-party funders, and may have failed to identify 'own interest' conflicts, when arranging litigation funding for clients
- **client information:** some solicitors and law firms are not providing the information clients need to make informed decisions about proposed TPLF arrangements, or are presenting the information in a way that means it cannot be readily understood by clients
- **due diligence and financial crime risk:** some solicitors and law firms are not alert to the risk that receiving funds from a litigation funder may risk receiving criminal property, or funds transmitted in breach of the UK sanctions regime.

We are consulting on the following proposals to increase our oversight where solicitors and law firms use and/or arrange TPLF in order to address these harms and risks. We propose adding five new requirements to our Standards and Regulations:

1. To introduce requirements that specifically address professional conduct when solicitors and law firms use and/or arrange TPLF for any type of claim. This includes specifying:
 - requirements to maintain independence from a funder
 - act in clients' best interests
 - only disclose confidential information with informed client consent
 - a requirement that clients and funders are informed of these obligations, and informed that funders are not regulated by us, in writing.

Because these professional obligations are so fundamental to protecting clients' interests, we propose they will apply for all solicitors and law firms using and/or arranging TPLF, rather than being limited to the consumer claims sector.

2. Solicitors and law firms using and arranging TPLF for consumer claims should provide relevant clients with a prominent funding information document. This is intended to ensure each client has the information they need to make an informed decision, before signing a TPLF agreement in relation to a consumer claim.
3. Solicitors and law firms to notify us promptly when they use and/or arrange TPLF for consumer claims.
4. That law firms using and arranging TPLF for consumer claims document, and make available to us on request, their 'TPLF risk assessment'. Law firms will complete the risk assessment on entering into a relevant arrangement with a third-party litigation funder for funding consumer claims. With a requirement that the risk assessment is updated every six months and approved by the firm's Chief Executive/Managing Partner (or equivalent) and compliance officers.
5. That law firms using and arranging TPLF for consumer claims, and meeting specific conditions, document, and make available to us on request, a plan setting out how the law firm would achieve and resource an orderly closure of its business, if that were necessary. With a requirement that the plan is updated every six months and approved by the firm's Chief Executive/Managing Partner (or equivalent) and compliance officers.

We describe these proposals in detail in our [consultation](#).

Our proposals have been developed through drawing on a substantial evidence base, including:

- information from interventions, investigations and inspections of firms in the high-volume claims sector using and arranging third-party litigation funding
- data collected as part of the [Thematic Review of High-Volume Consumer Claims](#), and [data](#) from the [mandatory declaration](#) exercise for firms providing high volume consumer claims services
- our stakeholder engagement and [responses](#) to our discussion paper
- [research into consumer experiences of the high-volume consumer claims sector](#)
- [research commissioned by the Legal Services Board](#) into third party litigation funding
- the [Civil Justice Council's \(CJC\) final report on litigation funding](#).

Further details of the evidence base which has informed our proposals can be found in the consultation. Our proposals have also been informed by extensive stakeholder engagement. We will use the consultation and ongoing engagement with stakeholders during the consultation period to seek views on our proposals and the initial assessments of regulatory, equality and diversity impacts set out in this document.

This consultation runs from 9 July until 17 September 2026.

After the consultation closes, we will analyse the responses and decide how to proceed. We will publish our decision.

Regulatory and Equality Impact Assessments

In this section, we outline our initial regulatory impact assessment of our proposals and our assessment of our proposals on people with the characteristics protected by the Equality Act 2010. We explain potential negative impacts we have identified and how we intend to mitigate them.

We assess below the impacts of each consultation proposal in turn, considering impacts and potential impacts in the round (taking into account their materiality and likelihood) to provide an overall assessment. To provide context for these assessments, we make the following overarching observations:

- our proposals have been developed as a coherent package with two overall objectives in mind:
 - to maintain and increase access to justice through enabling consumers to continue to pursue consumer claims that might otherwise be out of reach
 - to ensure that where TPLF is used for consumer claims, professional standards are maintained to provide protection to consumers
- the first proposal would apply to all solicitors and firms using and/or arranging TPLF. Our other proposals would apply to the likely less than 1 per cent of firms we regulate that use and/or arrange TPLF for consumer claims
- the first proposal is largely a reinforcement of the professional conduct obligations all solicitors and firms have, applied to the particular situation of where solicitors or firms use and/or arrange TPLF
- our proposals will therefore have little or no impact on the vast majority of solicitors and firms we regulate. And any impact on our own operations because of our proposals is highly unlikely to be material relative to our total costs
- we recognise that introducing specific new requirements for solicitors and firms using and/or arranging TPLF for consumer claims (as defined in our consultation), that do not apply where TPLF is used for other types of claims, has the potential to incentivise changes in behaviour by firms and funders that could have unintended consequences
- we have designed our approach with this risk in mind. We retain the flexibility to expand any requirements to other claim types in future if, with regard to our regulatory objectives, we identify risk that meant it was proportionate to do so
- we are conscious that new regulatory requirements can have a proportionately greater impact on smaller firms and sole practitioners. We note that our available information to date suggests that TPLF is predominately used for consumer claims by medium-sized and large firms, with no sole practitioners having been identified as using TPLF for consumer claims
- we do not anticipate that our proposals will have direct adverse impacts on individual solicitors or firms from protected groups to any significant degree
- we are conscious of the possibility that there might be indirect impacts if the diversity characteristics of solicitors and firms using and/or arranging TPLF are materially different from those of other types of law firms

- we do not have any evidence to suggest that this is the case. But for this initial impact assessment, it has not been possible to assess the diversity characteristics of solicitors and firms using and/or arranging TPLF, or how these compare with the diversity characteristics of comparable solicitors and firms that do not use and/or arrange TPLF. We have also not been able to assess the diversity characteristics of clients whose claims are being funded through TPLF
- this has limited the extent to which in this initial impact assessment we can make a substantive assessment of the impact of our proposals on people with the characteristics protected by the Equality Act 2010
- we will be carrying out further analysis to improve our understanding as we continue to develop our proposals and to inform a final impact assessment. In addition, through the consultation, we ask stakeholders whether there are any other factors or impacts on particular groups that we should consider or any other evidence sources that we should be considering.

Consultation proposal 1: Introducing requirements that specifically address professional conduct when solicitors and law firms use and / or arrange third-party litigation funding for any type of claim

This proposal is largely a reinforcement, in the particular situation of using and/or arranging TPLF, of fundamental professional obligations on all solicitors and firms such as:

- maintaining independence (Principle 3)
- acting in the client's best interest (Principle 7)
- only disclosing confidential information with the client's consent unless disclosure is required or permitted in law (Code of Conduct for Firms, paragraph 6.3).

As these are fundamental obligations all solicitors and firms should already be meeting, any impacts from this would be mostly felt by those who may not have been complying fully in the past.

The proposal for in scope solicitors and firms to confirm these professional obligations in writing to the funder and client would be a new regulatory requirement if it was implemented. We expect that this would involve a modest addition to existing written communication with these parties. This is most likely by way of standard wording firms would develop for their circumstances, and therefore we expect any impact in terms of additional time or cost would be minimal.

We expect that providing greater regulatory clarity on how these core professional obligations apply in the particular context of using and/or arranging TPLF would have a positive regulatory impact for solicitors and firms through reducing uncertainty. It would also have positive impacts from improving the awareness of both clients and funders of the obligations that solicitors and firms need to meet. We do not foresee any material negative regulatory impacts. Our in the round assessment is that proposal 1 would have a positive regulatory impact.

Consultation proposal 2: Solicitors and law firms using and arranging TPLF for consumer claims to provide relevant clients with a prominent funding information document

This proposal would introduce a new requirement for solicitors and firms to provide clients with a prominent prescribed funding information document, before the client signs a TPLF agreement.

Solicitors and firms have existing requirements to provide information to clients in relation to any TPLF agreement. Such as under paragraphs 8.6 and 8.7, SRA Code of Conduct for Solicitors, RELs, RFLs and RSLs, and the equivalent provisions in the SRA Code of Conduct for Firms. So a requirement to provide clients with information would not in itself result in any regulatory or equality impacts.

It is the proposal for in scope solicitors and firms to provide this information in the format of a prominent funding document, with prescribed content, that would be a new requirement.

We recognise that, even for solicitors and firms that are compliant with their current obligations, a requirement to provide prescribed information in a prominent way to clients could result in some degree of additional costs for implementation and potentially on an ongoing basis. We also recognise that some of these additional costs might be passed on to clients.

We also acknowledge that prescribing the information to be provided to clients may reduce the degree of ownership felt by solicitors and firms regarding provision of information to clients.

If, following consultation, we decided to implement this proposal, we would propose to mitigate these potential impacts by allowing some flexibility in how solicitors and firms implement any new requirement in this area. This would be within overall parameters that would be set by guidance.

Offsetting any potential negative regulatory impact, we expect that this proposal to increase the proportion of clients receiving the information needed to make fully informed decisions on whether to sign-up to a TPLF agreement for a consumer claim. This would reduce the risk of consumer harm from clients signing up to agreements without being aware of potential risks, costs or alternative options. Given the substantial evidence of material and ongoing risks and harms, we assess this positive regulatory impact as being significant.

We have seen that the greatest evidence of risks and harms where TPLF is used for funding consumer claims. Therefore, we are taking the targeted and proportionate approach of proposing only to apply this new requirement (and the requirements set out in proposals 3-5) in this situation. We do not propose to extend these requirements to the use of TPLF for other types of claims at this point. However, we will keep this under review, not least because we recognise that there may be some changes in behaviour by firms or funders if our proposals are implemented.

We are also mindful that if this new proposed requirement for consumer claims that are funded through TPLF agreements involving clients was perceived by solicitors, firms or funders to be burdensome, it might have the potential to encourage greater funding of consumer claims through working capital TPLF arrangements. This might in turn have unintended consequences. In this context, it is important to note that our proposals have been developed as a package. In particular, proposals 3-5 are intended to address risks related to use of working capital TPLF arrangements (as well as risks related to other forms of TPLF).

Our in the round assessment is that proposal 2 would have a significant net positive regulatory impact.

Consultation proposal 3: Solicitors and law firms to notify us promptly when they use and/or arrange TPLF for consumer claims

This proposal would introduce a new requirement that law firms promptly notify us when they use and/or arrange TPLF for consumer claims. We acknowledge that as this would be a new requirement, it would be likely to result in some degree of additional costs for implementation and potentially on an ongoing basis. And that some of these additional costs might be passed on to clients.

Our view is that this potential impact on firms would be substantially outweighed by the benefits of this proposal. Proactive and timely notification by firms using and/or arranging TPLF for consumer claims would give us a better and earlier understanding of potential or emerging risks. This would enable us to take proportionate and targeted regulatory action sooner, reducing the risk of material harms. This move towards a more proactive approach to addressing potential risks associated with the use of TPLF for consumer claims would enhance consumer and stakeholder confidence in the regulatory framework, and in the use of TPLF as an enabler for access to justice.

We have considered whether to mitigate the potential impact on firms by setting minimum criteria below which we would not require firms to notify us that they were using or arranging TPLF for consumer claims.

We have concluded that it would not be in the interests of consumers or the public interest to do so. Having a comprehensive understanding of the use of TPLF for consumer claims would enable us to identify systemic risks. For example, while a single firm's financial exposure to a litigation funder may be limited, there may be a marked level of financial exposure to a single funder across a number of firms in the HVCC sector. Visibility of this type of information would support our work to identify and act on risk. Notification would allow us to conduct further enquiries where we have concerns about particular arrangements.

As for proposal 2, we have seen the greatest evidence of risks and harms where TPLF is used for funding consumer claims. Therefore, we are taking the targeted and proportionate approach of proposing only to apply this new requirement in this situation. We do not propose to extend this requirement to the use of TPLF for other types of claims at this point. However, we will keep this under review, not least because we recognise that there may be some changes in behaviour by firms or funders if our proposals are implemented.

Our in the round assessment is that proposal 3 would have a significant net positive regulatory impact.

Consultation proposal 4: Law firms using and arranging third-party litigation funding for consumer claims document, and make available to us on request, a 'third-party litigation funding risk assessment'

This proposal would introduce a new requirement that law firms document, and make available to us on request, a TPLF risk assessment (including assessment of a prescribed list of risk factors), if they use and/or arrange TPLF for consumer claims, and update this assessment every six months. We acknowledge that as this would be a new requirement, it would be likely to result in some degree of additional costs for implementation and potentially on an ongoing basis, and that some of these additional costs might be passed on to clients.

We note that many of the activities we envisage being carried out as part of the risk assessments are activities that firms will be carrying out as part of complying with our current Standards and Regulations. The additional requirement would be for firms to document their assessments and make them available to us on request.

We also note that we have avoided unnecessary burdens for firms by not proposing that risk assessments be automatically sent to us. We would instead take a proportionate and targeted approach to requiring these documents to be provided to us.

If we were to implement this proposal, we have considered what would be the appropriate frequency for firms to update their risk assessments to make sure that relevant changes in circumstance are risk assessed. For example, changes to the prospects of success of a claim type, or the likely duration of claims. Our view is that a requirement to review and where necessary update risk assessments every six months would strike the right balance between making sure that risk assessments are up to date and reflect any significant developments in relevant litigation and/or in the firm's wider financial position and avoiding unnecessary burdens on firms.

We have also considered whether the proposed introduction of this new requirement might affect the availability of TPLF for consumer claims. We note that many funders are committed to maintaining high standards, and we assess that the likelihood of any significant negative impact on the availability of TPLF for consumer claims, and therefore to access to justice, to be low.

Our view is that the potential impacts on firms, after the mitigations above, would be substantially outweighed by the benefits of this proposal. The risks from inappropriate use of TPLF for consumer claims are substantial, and in several cases these risks have crystallised, resulting in significant harm to large numbers of consumers. Requiring all firms using and/or arranging TPLF for consumer claims to carry out risk assessments, including assessment of a prescribed list of risk factors, would be a proportionate and targeted response to these risks and harms.

Our expectation is that these risk assessments would improve use of TPLF, resulting in a positive reputational impact on the profession, fewer disorderly or orderly closures of firms and significantly reduced risks and harms to consumers.

As for proposal 2, we have seen the greatest evidence of risks and harms where TPLF is used for funding consumer claims. Therefore, we are taking the targeted and proportionate approach of proposing only to apply this new requirement in this situation. We do not propose to extend this requirement to the use of TPLF for other types of claims at this point. However, we will keep this under review, not least because we recognise that there may be some changes in behaviour by firms or funders if our proposals are implemented.

Our in the round assessment is that proposal 4 would have a significant net positive regulatory impact.

Consultation proposal 5: Law firms using and arranging TPLF for consumer claims, and meeting specific conditions, document, and make available to us on request, a plan setting out how the law firm would achieve and resource an orderly closure of its business, if that were necessary.

This proposal would introduce a new requirement for firms to document and make available to us on request an orderly closure plan in certain circumstances. We acknowledge that as this would be a new requirement, it would result in some degree of additional costs for implementation and potentially on an ongoing basis. And that some of these additional costs might be passed on to clients.

Many of the activities we envisage being carried out as part of producing an orderly closure plan are activities that firms will be already be doing to comply with our current Standards and Regulations. The additional requirement would be for firms to document an orderly closure plan and make it available to us on request.

In our proposal, we have mitigated this potential impact by applying the following risk-based thresholds to determine when law firms would be subject to this requirement:

- law firms using or arranging non-recourse TPLF for consumer claims and instructed by, or anticipating being instructed by, 500 or more individual claimants in relation to the claim(s)
- law firms using recourse funding and the total funding provided (but not necessarily drawn down) is equivalent to, or greater than, 30 per cent of the firm's latest reported annual turnover figure
- law firms providing security in relation to the relevant funding, or where any owner, manager or employee has provided such security.

If none of the thresholds were met, then firms would not be required to produce and maintain an orderly closure plan. The thresholds we have proposed are based on our experience of the closure of law firms in the HVCC sector, which were using or arranging TPLF.

Where a firm has at least 500 third-party funded client matters there is more likely to be a significant impact for those clients if a firm is unable to effect an orderly closure. Lower volumes are more manageable on closure, particularly in relation to supporting clients to secure alternative legal representation.

In addition, our investigations work, and declaration data, indicate that financial instability and disorderly closure may be more likely where:

- a funder has security (and so can apply to have a firm wound up at short notice)
- the liability to a funder is significant as compared to the law firm's last reported turnover.

We have avoided unnecessary burdens for firms by not proposing that orderly closure plans be automatically sent to us. We would instead take a proportionate and targeted approach to requiring these documents to be provided to us.

If we were to implement this proposal, we have considered what would be the appropriate frequency for firms to update their orderly closure plans for relevant changes of circumstances.

Our view is that a requirement to review and where necessary update orderly closure plans every six months would strike the right balance. That is between making sure they are up to date and reflect any significant developments in the firm's financial position, and avoiding unnecessary burdens on firms.

We have also considered whether the proposed introduction of this new requirement might affect the availability of TPLF for consumer claims. We note that many funders are committed to maintaining high standards, and we assess that the likelihood of any significant impact on the availability of TPLF for consumer claims, and therefore to access to justice, to be low.

Our view is that the potential impact on firms of this proposal, after the mitigations above, would be substantially outweighed by its benefits. When the risk of a disorderly closure of a firm crystallises, this can be one of the most impactful events possible for consumers of legal services. This has happened in several recent cases, resulting in significant harm to large numbers of consumers.

A proposal to require all firms using and/or arranging TPLF for consumer to produce and maintain an orderly closure plan is a proportionate and targeted response to these risks and harms. We expect that this would reduce the likelihood of disorderly closures, and the associated harms. This is as producing an orderly closure plan should result in a greater

focus by firms on taking pre-emptive action to avoid the need for firm closure, or to make sure they can carry out an orderly closure should closure become necessary. This should have a positive reputational impact on the profession.

As for proposal 2, we have seen the greatest evidence of risks and harms where TPLF is used for funding consumer claims. Therefore, we are taking the targeted and proportionate approach of proposing only to apply this new requirement in this situation. We do not propose to extend this requirement to the use of TPLF for other types of claims at this point. However, we will keep this under review, not least because we recognise that there may be some changes in behaviour by firms or funders if our proposals are implemented.

Our in the round assessment is that proposal 5 would have a significant net positive regulatory impact.

Impact of our proposals

Impact of our proposals on our regulatory objectives

We have identified the potential impacts below of our proposals on the regulatory objectives set out in the Legal Services Act 2007.

Legal Services Act s1(1) Regulatory Objective	Potential impact of our proposals on the Regulatory Objectives, having regard to the Better Regulation Principles (Legal Services Act ss 1 and 28)
Protecting and promoting the public interest	Requiring that firms using TPLF for consumer claims notify us, produce risk assessments and orderly closure plans would reduce risks to the public interest and enable us to take regulatory action needed to protect and promote the public interest.
Supporting the constitutional principle of the rule of law	We have not identified a material impact that our proposals will have on this objective
Improving access to justice	Our proposals have been designed to avoid undermining the important role that TPLF can play in improving access to justice. And we have not identified any material negative impact. Improving consumer confidence in using TPLF for consumer claims would have a positive impact.
Protecting and promoting the interests of consumers	Requiring that firms using TPLF for consumer claims notify us, produce risk assessments and orderly closure plans would reduce risks to consumers and enable us to take regulatory action needed to protect and promote the interests of consumers.
Promoting competition in the provision of services	We know that some solicitors and firms use and arrange TPLF for consumer claims in a responsible manner. Our proposals would help make sure that all solicitors and firms do so, supporting a level playing field which would help promote more effective competition in the provision of services.
Encouraging an independent, strong, diverse and effective legal profession	Our proposals would provide greater assurance that solicitors maintain their independence, in particular from funders, and reduce the risk of disorderly closure of firms, strengthening the profession.
Increasing public understanding of the citizen's legal rights and duties	Our proposal to require that clients are provided with a funding information document before entering into a TPLF agreement would assist in increasing public understanding of rights and duties related to TPLF.
Promoting and maintaining adherence (by authorised persons) to the professional principles	Specifying in more detail professional conduct obligations for solicitors and firms using or arranging TPLF would provide greater clarity on expectations, promoting adherence to professional principles.
Promoting the prevention and detection of economic crime	TPLF risk assessments would include whether the firm has conducted any due diligence to make sure that the funder is legitimate. This would reduce the risk of the funds being the proceeds of crime or frozen under the sanctions regime

Impact of our proposals on innovation and economic growth

We have not identified any negative impact of our consultation proposals on innovation and growth. We recognise that access to finance, including TPLF, can be an important factor in supporting law firms to innovate and grow.

We also recognise that the use of TPLF can enable effective routes for consumers to enforce their rights, increasing access to justice and enabling consumers to pursue claims that might otherwise be out of reach. This will have broader economic impacts, including providing financial redress to consumers and as a result increasing their purchasing power, increasing confidence across the economy that consumer rights will be upheld, and deterring businesses from deploying poor practices.

We want to make sure that law firms, their clients and the broader economy can access the benefits external finance can bring in a way that also ensures appropriate protections for consumers.

Impact on other legal services regulators

We have engaged with other legal services regulators as we developed our policy proposals, and we will continue to do so. We expect that there would be limited direct impact on other legal services regulators beyond the standard requirement for the Legal Services Board to assess and consider whether to approve any potential rules changes that may flow from this consultation and associated work.

Monitoring and evaluation

We will monitor and evaluate the effectiveness and impact of our proposals should we implement them. We would initially monitor implementation of our proposals, for example enquiries and feedback we receive from firms and solicitors, to identify if there are any aspects on which we may need to provide further support or any emerging unintended consequences. We would then evaluate whether the new requirements are achieving their intended objectives without unintended consequences and assess the impacts on firms, solicitors and consumers.