The Berkeley Partnership

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LSB Section 32 Directions: Solicitors Regulation Authority

Independent Assurance Review

The Berkeley Partnership

30th June 2026

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1 EXECUTIVE SUMMARY

This report presents the findings of an independent assurance review of the Solicitors Regulation Authority's (SRA's) compliance with the Legal Services Board (LSB) Section 32 Directions issued in May 2025. The review evaluates both the completion of the SRA's Implementation Action Plan and the extent to which outcomes achieved meet the letter and spirit of the LSB's Directions and the Carson McDowell report.

SUMMARY OF FINDINGS

Overall, the review finds that the SRA has delivered **substantial and timely progress**, with the majority of implementation steps completed and **no areas assessed as not met**. Of the 60 implementation steps defined in the Action Plan, 48 (80%) were assessed as fully met, 5 (8%) as partially met, and 7 (12%) as future actions, largely reflecting dependencies on external approvals or planned delivery timelines.

Across the six Directions, the SRA has established significantly enhanced governance frameworks, risk architecture, and supervisory processes. These represent a **clear structural improvement** on the position identified following the Axiom Ince failure and demonstrate that the SRA has, in most areas, met the commitments set out in its implementation plan in response to the Directions.

However, the review identifies a consistent and material qualification: while **processes, frameworks and controls are largely in place**, their **effectiveness in practice is not yet fully evidenced**. In particular, limitations remain in demonstrating how improvements translate into better outcomes, including earlier risk identification, more proactive intervention, and consistent use of intelligence to inform regulatory decisions.

- **Governance (Direction 1)** and **Pre-intervention (Direction 6)** are the most advanced areas, with strong delivery of process reforms and emerging evidence of improved operational practice.
- **Risk (Direction 2)** has established a comprehensive framework, but embedding, behavioural change, and demonstrable impact remain immature.
- **Authorisation (Direction 3)** and **Client Money (Direction 4)** show robust policy development and control enhancements, but full effectiveness depends on implementation if regulatory approval from the LSB is received (Direction 3) and completion of the Supervision Task Force Pilot (Direction 4).
- **Sales, Mergers & Acquisitions (Direction 5)** reflects strong diagnostic work and interim measures, with additional planning for resource and expertise, and consultation on the policy position in progress.

SUMMARY OF RECOMMENDATIONS

The recommendations made are aligned to each Direction and focus on moving from structural delivery to demonstrable effectiveness in practice:

- **Direction 1 - Governance:** Introduce outcome-based metrics into operational decision-making to evidence the effectiveness of governance reforms.
- **Direction 2 - Risk:** Define clear escalation thresholds, accelerate delivery of the Risk and Data Operating Model, and establish feedback loops to ensure risk insight drives action.
- **Direction 3 - Supervision (Authorisation):** Develop detailed implementation plans ahead of LSB approval and test threshold criteria to ensure fast-growing, high-risk firms are captured.

- **Direction 4 - Supervision (Client Money):** Define a clear supervisory response model, complete and evaluate the Supervision Task Force pilot, and strengthen monitoring to evidence earlier risk identification.
- **Direction 5 - Supervision (Sales, Mergers & Acquisitions):** Prioritise mandatory acquisition notification rules and develop a clear operating model for ongoing M&A supervision, supported by early warning indicators.
- **Direction 6 – Supervision (Pre-intervention Procedures):** Track the use of interim measures and compliance plans, progress additional regulatory powers, and introduce post-intervention reviews to evidence improved decision-making.
- **Cross-cutting:** Establish a consistent outcomes framework across all Directions, using metrics, case studies and thematic reviews to demonstrate impact in practice.

CONCLUSIONS

In conclusion, the SRA has moved decisively to address the structural weaknesses identified by the Axiom Ince case and has largely met the commitments it set out in its implementation plan in response to the Directions. The next phase of delivery must focus on embedding, evidencing and sustaining these reforms in practice, with clear demonstration that they are driving improved regulatory outcomes. Continued oversight and follow-up review will be essential to provide full assurance that the intended improvements have been realised.

2 BACKGROUND AND CONTEXT

In October 2023, the Solicitors Regulation Authority (SRA) intervened into Axiom Ince Limited, a rapidly expanding accumulator law firm, after it emerged that more than £60 million in client funds had been misappropriated. The Legal Services Board (LSB) commissioned an independent review by Carson McDowell LLP, published in October 2024, which identified a series of significant failings in the SRA's regulatory oversight. The report concluded that the SRA "did not act adequately, effectively and efficiently" and that its actions and omissions "necessitate change in its procedures to mitigate the possibility of a similar situation arising again."

In response, the LSB issued binding Directions to the SRA under section 32 of the Legal Services Act 2007, effective 29 May 2025, the first time these enforcement powers had been exercised. The Directions require the SRA to make specific and demonstrable improvements across three areas: Governance, Risk, and Supervision (encompassing Authorisation, Client money, Sales/Mergers/Acquisitions, and Pre-intervention Procedures). The SRA was directed to comply within 12 months and to provide written progress reports to the LSB on a quarterly basis.

In compliance with Direction 8, which requires the SRA to commission an independent external audit or equivalent review to assess and evaluate compliance with the Directions, the SRA issued a Request for Proposal in May 2026. On 6 May 2026, the LSB released a public statement reinforcing its expectation that the SRA commission this independent review and make the report available to the LSB by the end of June 2026. The Berkeley Partnership was subsequently commissioned to deliver this Independent Assurance Review, bringing experience in independent transformation programme assurance across regulated and public sector environments.

The expected output of this review was threefold: to check how far the SRA has completed the steps in its Action Plan up to May 2026; to judge whether the results actually meet the letter and spirit of the Directions; and to point out where more work is needed to close any gaps that remain.

3 PURPOSE OF THIS DOCUMENT

This document presents the findings of the Independent Assurance Review of the SRA's compliance with the LSB's Section 32 Directions. Its purpose is to provide the LSB, the SRA, and relevant stakeholders with a robust, evidence-based and independent assessment of the extent to which the SRA has implemented the actions set out in its Implementation Action Plan and whether the outcomes of that work meet the requirements of each Direction.

Specifically, the report evaluates the completion and effectiveness of implementation actions taken to date, identifies the extent to which the requirements under each Direction have been achieved, and highlights any remaining gaps. Where the SRA’s Implementation Plan steps have been only partially met, the report reviews existing SRA plans for further steps and identifies what additional actions may be required to fully meet each step and the associated Direction. The qualitative assessment also identifies additional actions to meet the Directions, where the related Implementation Steps have been fully met. The report provides an overall level of assurance for each Direction alongside practical, forward-looking recommendations; enabling the report to serve as both a compliance assessment and a gap analysis to underpin future planning and, where appropriate, to be revisited in 6, 9 or 12 months' time for further review.

4 APPROACH AND METHODOLOGY

4.1 Approach

Berkeley structured the activities for the independent assurance review in five phases (as shown in Figure 1): i) Mobilisation, (ii) Evaluation & Audit, (iii) Findings, (iv) Socialisation & Refinement and (v) Final Review & Report Completion. The sequence and timelines of planned activity, allowed for iterative analysis, feedback and refinement, in collaboration with the SRA and the LSB.

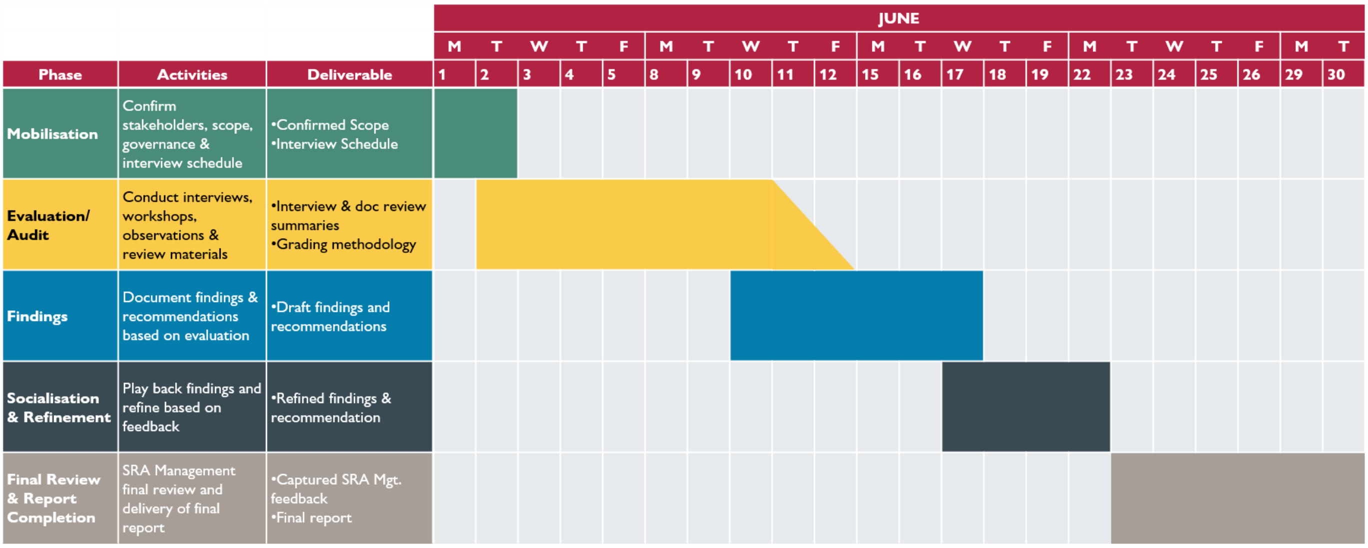

Figure 1: *LSB Directions Independent Assurance Review – Delivery Plan*

Phase 1: Mobilisation

The mobilisation phase established the foundations for the assurance review, ensuring that scope, governance, stakeholders, and delivery arrangements were clearly defined upfront. This phase set a clear baseline for delivery and enabled an efficient and structured audit process. The following key activities were completed:

- The scope of the review was finalised, aligned to the LSB Directions and Implementation Plan
- Key stakeholders and accountable owners were identified
- Governance and reporting arrangements for the review were established
- The interview schedule was agreed with stakeholders
- The overall delivery plan and approach, including phases and timelines, were agreed
- A grading framework to be used in Phase 2 was agreed with the SRA (see Appendix C)

Phase 2: Evaluation & Audit

The evaluation and audit phase focused on building a robust, evidence-based assessment through structured data collection. This included triangulating insights from interviews, documentation, and observations to assess progress against each implementation step. The following key activities were completed:

- Conducted 9 stakeholder interviews with accountable owners and additional relevant individuals (see Appendix B)
- Undertook a review of over 130 documents across SRA submissions, risk assessments, consultations, and supporting materials
- Analysed evidence collected across interviews and document reviews
- Conducted follow-up interviews (where required) to validate analysis
- Assessed each implementation step against the grading framework (Fully Met, Partially Met, Not Met, Future Action)
- Performed a qualitative analysis of progress made against each LSB Direction

Phase 3: Findings

In the findings phase, insights from the evaluation were consolidated into clear, evidence-based findings and recommendations. The following key activities were completed:

- Documented detailed findings, including strengths, gaps, and areas of partial delivery
- Captured planned action to address identified gaps and developed actionable recommendations (where required)
- Produced draft outputs (e.g. step-level assessments and narrative commentary)
- Shared initial findings internally for quality assurance and accuracy

Phase 4: Socialisation & Refinement

This phase focused on validating and refining findings through engagement with stakeholders. Emerging outputs were tested, challenged, and re-drafted to ensure accuracy. The following key activities were completed:

- Shared emerging findings and draft outputs with stakeholders for review
- Facilitated feedback sessions
- Incorporated stakeholder feedback to refine findings and recommendations
- Validated interpretations of evidence and grading with accountable owners
- Iterated outputs to ensure clarity, accuracy, and alignment

Phase 5: Final Review & Report Completion

The final phase ensured that outputs were fully validated and formally delivered. It included incorporating final feedback and preparing the report for submission to the SRA Board and subsequently to the LSB. The following key activities were completed:

- SRA management review of the draft report and findings to confirm factual accuracy
- Incorporated final feedback and agreed changes into the report
- Prepared executive summaries and key messages for Board-level submission
- Completed and delivered the final assurance report in line with reporting deadlines

4.2 Methodology

Analysis Framework

The Evaluation & Audit phase was undertaken as a structured, evidence-led review of the SRA's implementation of the LSB Directions, using a step-level assessment framework captured in a master workbook (see Appendix A). The workbook sets out the full review structure for each implementation step, including the relevant section, Direction reference, Direction requirement, accountable owner, implementation date, evidence documents, grading and the path to green. The following steps were taken to populate this view.

Step 1: Document review

The primary method of analysis was a detailed document review conducted against each implementation step in the action plan. For every step, the review team examined the evidence listed in the workbook and recorded an accompanying qualitative assessment of the evidence demonstrated. The analysis did not stop at confirming the existence of documents or activities; it also recorded reviewer judgement, narrative commentary, rationale and any remaining issues or actions arising from the review.

During the Evaluation & Audit phase, more than 150 documents were reviewed. The evidence base reviewed through this process was broad and included quarterly submissions to the LSB, market risk assessment documentation, consultations and reports, and additional supporting material governance documents such as Board and committee minutes, risk frameworks, terms of reference, handbooks, procedures, templates, training materials and progress reports.

This approach created a clear line of traceability between each LSB Direction requirement, the corresponding implementation steps in the SRA's plan, the supporting evidence provided, and the review team's assessment. By recording evidence sources, narrative reasoning and step-level conclusions in a single analytical file, the methodology established a consistent audit trail across the full review.

Step 2: Interview approach

The document review was supplemented by a targeted programme of stakeholder interviews, which included all six accountable owners for the implementation plan and three additional stakeholders identified during the review (see Appendix B).

The interviews were structured conversations to test findings and hypotheses rather than broad stakeholder discussions. Interview questions were aligned to particular Direction references, draft assessments and review comments. This meant that each discussion was used to test specific aspects of delivery, such as whether milestones had been achieved, whether the intended behavioural or operational change had occurred, and where any evidence gaps remained.

The interview process therefore served two complementary purposes. First, it was used to validate and challenge the documentary evidence already reviewed. Second, it was used to gather practical insight on implementation, including how arrangements were operating in practice, where delivery remained dependent on future actions, and where the evidence trail required further strengthening.

Step 3: Consolidation and quality assurance

The process of consolidating findings involved comparing documentary evidence with interview evidence at implementation-step level and updating the analysis where stakeholder explanations either corroborated, clarified or qualified the initial document-based assessment.

The methodology also preserved transparency over uncertainty and incomplete evidence, so that there was clarity on where further material was required or where implementation remained in progress. This helped ensure that conclusions were evidence-based and appropriately qualified.

Step 4: Assessment framework

Implementation step-level assessment:
The assessment framework applied at Implementation step level during the Evaluation & Audit phase was a four-category grading model comprising Fully Met, Partially Met, Not Met and Future Action:

- No capability or structure evidenced = **Not Met**
- Partial or inconsistent implementation = **Partially Met**
- Comprehensive, embedded and evidence-based delivery = **Fully Met**
- Activities that are not yet due or remain pending external dependencies = **Future Action**

This grading framework enabled the review to distinguish between delivery that was complete and evidenced, delivery that had been initiated but not yet fully embedded, and actions that were legitimately dependent on future milestones or external approvals.

Direction-level assessment:
The workbook demonstrates that each implementation step was assessed by reference to both the available evidence and the intended outcome of the Direction. In addition to a grading field, the analysis included a qualitative narrative and observations about whether the response met the requirement formally or whether further evidence of operational effectiveness was still needed. The workbook also captured qualitative assessments for all 17 LSB Direction Requirements and section-level summaries, allowing the analysis to move from implementation-step judgements to broader conclusions on each Direction and thematic area.

Overall, the Evaluation & Audit methodology provided a clear and auditable basis for assessing the SRA's progress against the LSB Directions and for forming balanced conclusions on both the completeness of delivery and the extent to which the intended outcomes had been demonstrated in practice.

5 FINDINGS

5.1 Summary Findings

Across the six Directions, the Action Plan sets out 60 separate steps. We assessed 48 of them (80%) as fully met, 5 (8%) as partially met, and 7 (12%) as future actions that either fall due or depend on external approval after the twelve-month compliance period. We found no step that had not been met.

For all six Directions, a judgement was made on the extent to which the SRA has made progress against the letter and the spirit of each. This was based on the qualitative assessment of each of the seventeen Direction Requirements.

Table 1: *Summary of Direction-level assessment and Implementation Step-level assessment*

DIRECTION	DIRECTION-LEVEL ASSESSMENT	IMPLEMENTATION STEP-LEVEL ASSESSMENT				
		Fully met	Partially met	Not met	Future action	Total
1. Governance	Process maturity is strong across governance, evaluation and record-keeping. Outcomes, particularly improved challenge and decision quality, are not yet evidenced.	8	0	0	0	**8**
2. Risk	Process architecture is substantial but immature in its implementation. Outcomes in terms of proactive risk identification and action are not yet consistently realised.	9	3	0	1	**13**
3. Authorisation	Process has progressed through design, consultation and submission but remains incomplete pending LSB approval and implementation.	7	0	0	2	**9**
4. Client money	Process improvements address key control gaps and introduce a new supervisory approach, but outcomes are still emerging as that model is piloted and scaled.	10	1	0	2	**13**
5. Sales, mergers & acquisitions	Process development remains partial, with internal workarounds in place but core regulatory mechanisms not yet implemented, constraining outcomes.	5	1	0	2	**8**
6. Pre-intervention	Process is comprehensive and well embedded, and there is emerging evidence of improved outcomes in earlier and more proportionate intervention.	9	0	0	0	**9**
		48	**5**	**0**	**7**	**60**

5.2 Detailed Findings

5.2.1 Direction 1: Governance

Put in place governance changes that deliver demonstrable improvement in regulatory effectiveness and efficiency. These changes must result in a regulatory approach that better protects and promotes the public interest and the interests of consumers and promotes and maintains adherence to the professional principles.

Summary of the grading of the corresponding Implementation steps

Table 2: *Direction 1 Implementation Steps Assessment*

Direction Ref.	Step No.	Specific Step	Grade	Rationale for grade
1(a)(i)	1	Board to agree clear regular reporting cycle to ensure overview of RIF activities.	Fully Met	A regular reporting cycle was established with Board and ARC visibility.
1(a)(i)	2	Improvements include oversight of RIF arrangements (i.e. reports on the processes adopted, the trials of embedded intelligence staff), updates to the RMF so that Mid-tier Risk Register (MRR) explicitly cover market risks, and regular ARC review of MRR.	Fully Met	Oversight, RMF updates and ARC review arrangements are evidenced and operational.
1(a)(ii)	1	Review and revise as necessary guidance, templates and desk notes on regulatory impact assessments (RIAs), including around incorporating lessons learnt from previous regulatory changes and our assessments of them.	Fully Met	Updated RIA guidance and templates were developed following review.
1(a)(ii)	2	Implement updated regulatory impact assessment arrangements, including training. The arrangements will reflect lessons learnt from evaluations.	Fully Met	The RIA framework was implemented with supporting training.
1(a)(ii)	3	Review and revise evaluation arrangements within the SRA, including how lessons learnt can be fed back into the decision-making process (build on a tiered system to undertaking evaluations - proportionate mix of set-piece evaluations for large-scale regulatory programmes and dip sampling of effectiveness of smaller regulatory actions).	Fully Met	Evaluation arrangements were reviewed and redesigned using a tiered approach.
1(a)(ii)	4	Implement evaluation arrangements.	Fully Met	Evaluation arrangements were implemented and made operational.
1(a)(iii)	1	Review arrangements for ensuring consistent, accurate and timely records of all significant governance decisions and regulatory decisions are kept and maintained.	Fully Met	A review of record-keeping arrangements was completed across relevant decision types.
1(a)(iii)	2	Improve record keeping arrangements and training/guidance as required.	Fully Met	Record-keeping improvements, guidance and QA arrangements were implemented.

Across Direction 1, all eight implementation steps were graded Fully Met at step level. This indicates that, at implementation-step level, the SRA completed the planned actions for each element of Direction 1 within the review period.

Summary of the qualitative assessment of Direction 1

Direction 1(a)(i) - Demonstrate improved Board-level oversight of regulatory risk and intelligence activity, including through a clear reporting cycle to the SRA Audit and Risk Committee and Board, which also allows for the appropriate escalation of risks

We assess that the SRA has put in place a materially improved governance architecture for Board-level oversight of regulatory risk and intelligence. The evidence shows a revised RIG Terms of Reference, an updated Risk

Management Framework approved by ARC, RIF activity established as a standing ARC item, explicit inclusion of market risks within the Mid-Tier Risk Register, and regular strategic and mid-tier risk reporting to both the ARC and the Board. Collectively, these changes represent a genuine structural improvement over the pre-Axiom position, in which market and accumulator risk intelligence remained within operational forums and did not reach Board level for challenge.

It is important to note that governance architecture alone is not sufficient to demonstrate the full intent of the Direction. The decisive issue will be whether the information flowing through the new reporting cycle is sufficiently granular, forward-looking and analytically robust. The new reporting cadence is therefore assessed as necessary and well evidenced, but its effectiveness in preventing recurrence is yet to be fully proven through operation over time.

Direction 1(a)(ii) - Implement procedures to assess the impact of regulatory decisions on the public and consumers, and to enable evaluation of the SRA's regulatory effectiveness generally

The qualitative assessment concludes that the SRA has established a combined Regulatory Impact Assessment (RIA) and evaluation framework that constitutes genuine structural reform. The framework is described as live from 1 May 2026, externally informed, embedded through mandatory e-learning, and designed on a proportionate, tiered basis. It addresses an important implicit weakness identified by the Carson McDowell review: that the SRA had previously intervened in a number of significant accumulator firms without having a formal mechanism to evaluate those interventions systematically and feed lessons into future decision-making. This creates a mechanism to assess decisions before they are made and then review them afterwards for learning; something that did not previously exist.

The framework appears strongest at the level of policy and programme decisions, whereas the supervisory failures associated with Axiom were more operational in nature. The optimisation of the framework's practical preventive value, therefore, depends on how far the methodology is applied below policy level into day-to-day regulatory decision-making. We also note that procedural reform cannot, by itself, guarantee that the organisation will act on difficult findings in practice. However, we took confidence from the consistency and alignment of key stakeholders within the SRA describing the ongoing cultural shift from an investigatory (inherently backward looking, evidence-based) to a supervisory (forward-looking, risk/prediction based) model.

Direction 1(a)(iii) — Ensure consistent, accurate and timely records of all significant governance decisions and regulatory decisions are kept and maintained

The qualitative assessment concludes that the SRA has completed and implemented a substantive review of decision-recording arrangements across operational, policy and Board/Executive levels, followed by embedded principles for record-keeping and strengthened quality assurance. This is seen as a direct response to the specific Carson McDowell finding that there was no contemporaneous record of the 4 August 2023 meeting at which the SRA decided to recommend intervention into three directors rather than the firm as a whole. The new arrangements are therefore considered to address the formal record-keeping weakness that prevented subsequent scrutiny and learning.

While this is a material improvement, there are two key considerations:

First, the failure that Carson McDowell's originally flag is in an operational, field-level context. The real test is whether the improved arrangements are consistently applied to intervention recommendations, investigation outcomes and risk assessments, rather than mainly improving governance-level records.

Second, better decision records do not inherently address the execution issues that followed the partial intervention in Axiom, including the lack of clear communication to remaining directors regarding client account controls. The record-keeping reform is therefore assessed as delivered, but we would recommend that the same execution and communication disciplines are embedded within operational interventions and risk assessments as well as at governance-level.

Summary of the extent to which Direction 1 (Governance) has been met

"Put in place governance changes that deliver demonstrable improvement in regulatory effectiveness and efficiency. These changes must result in a regulatory approach that better protects and promotes the public interest and the interests of consumers and promotes and maintains adherence to the professional principles."

The SRA has **put in place the governance changes** required by this Direction. All eight implementation steps are graded Fully Met, and our qualitative assessment is that a materially improved governance architecture is now in operation. This puts in place Board-level oversight of regulatory risk and intelligence, regulatory impact assessment and evaluation, and decision-recording.

These changes are clearly directed at **better protecting and promoting the public interest and the interests of consumers** and at **maintaining adherence to the professional principles**, with public interest and consumer interest now embedded as explicit considerations in revised guidance, the RIA methodology and decision-making processes. The **"demonstrable improvement in regulatory effectiveness and efficiency"** required by the Direction will, however, only be fully evidenced as the new structures operate over time and as Board-level information demonstrably drives sharper challenge and improved regulatory outcomes in practice.

5.2.2 Direction 2: Risk

Strengthen risk functions and market intelligence to ensure a proactive and integrated approach to identifying and responding to risk across the legal sector.

Summary of the grading of the corresponding Implementation steps

Table 3: *Direction 2 Implementation Steps Assessment*

Direction Ref.	Step No.	Specific Step	Grade	Rationale for grade
2(a)(i)	1	Deliver proactive and integrated approach to identify and respond to risks.	Partially Met	The framework exists but is not yet fully embedded or demonstrably proactive.

2(a)(i)	2	Board to agree Harms Framework, covering all Regulatory Objectives including the impact on consumer interests and the public interest	Fully Met	The harms framework was agreed and is being applied in risk processes.
2(a)(i)	3	Review of Risk and Data Operating Model.	Fully Met	The operating model review was completed and identified capability gaps.
2(a)(i)	4	Potential new Risk and Data Operating Model agreed and implemented.	Future Action	Agreement and Implementation of the model is planned throughout 2026 and into 2027, so this step not yet due.
2(a)(ii)	1	Establish processes for market risk assessment.	Fully Met	The market risk assessment process was approved and put in place.
2(a)(ii)	2	Conduct market risk assessment, including reviewing risks arising from firm structures and from the sale/merger/acquisition of firms.	Fully Met	The first market risk assessment was completed and approved.
2(a)(iii)	1	Revise the Terms of Reference (ToR) for the Risk and Intelligence Governance Group (RIG) to ensure all operational areas are represented at leadership level. The ToR will also be updated to reflect the responsibility of leaders to incorporate market intelligence and data within their decision making, both in contributing to the RIF but also in taking actions.	Fully Met	The RIG Terms of Reference were revised to support intelligence sharing.
2(a)(iii)	2	Trial the updated RIG arrangements and intelligence flows.	Fully Met	Case studies demonstrate that updated intelligence flows were tested.
2(a)(iii)	3	Risk Analysts will support the operational areas in the identification and understanding of risks, and in the use of intelligence products.	Partially Met	Analysts provide intelligence, but the depth of supporting the use of that intelligence and embedding into decision-making is not fully evidenced.
2(a)(iv)	1	Revise the Terms of Reference for the RIG to ensure all operational areas are represented at leadership level. The ToR will also be updated to highlight explicitly the responsibility of leaders to ensure policy making is informed by market intelligence and data.	Fully Met	The governance route for intelligence-led policy was established.
2(a)(iv)	2	Providing risk analyst support to policy development projects, as part of working / steering groups to assist with that read across from RIF and to help with analytical products.	Fully Met	Analyst support to policy development is evidenced, although impact traceability is limited.
2(a)(v)	1	Implement processes for documenting and scoring identified market risks in RMF.	Fully Met	Market risk scoring processes were implemented in the RMF.
2(a)(v)	2	Review internal reporting mechanisms (including reporting to senior leadership) for RIF.	Partially Met	Reporting was improved, but granularity and sensitivity are not yet fully proven.

While the majority of steps (9 out of 13) are graded Fully Met, a number of critical steps relating to embedding capability, behavioural change and operating model delivery are either Partially Met (3 steps) or Future Action (1 step), indicating that full delivery is not yet embedded and working consistently across the organisation.

Summary of the qualitative assessment of Direction 2

Direction 2(a)(i) - Establish and embed a framework for ongoing, proactive identification and assessment of risks to consumer interests and the public interest, including those arising from firm structures

The qualitative assessment concludes that the SRA has successfully established a coherent and well-evidenced risk architecture, including the Risk and Intelligence Framework (RIF), a Board-approved harms framework, and a completed review of the Risk and Data Operating Model. The Risk and Data Operating Model is intended to move the SRA from a framework-led, partly reactive approach to a joined-up, data-enabled, proactive risk identification and assessment system, which builds on the existing RIN/RIG architecture. This represents a substantial structural response and partially addresses the requirement of the Direction.

However, the root cause leading to the Axiom failure was not a lack of framework, but a failure to act on identified risks. The current framework therefore addresses process architecture but does not yet address the behavioural aspects of risk identification and escalation. At the time of the review fieldwork, the RIF to Harms Framework feedback loop was assessed by the SRA as being at maturity level 1. In addition, the design and implementation of the operating model is in progress. As a result, the framework is not yet fully embedded or demonstrably proactive in practice.

Direction 2(a)(ii) - Develop risk-based systems and procedures to proactively collect and analyse market intelligence, including risks arising from the sale, merger and acquisition of firms

The qualitative assessment confirms that the SRA has established a repeatable and leadership-owned market risk assessment process and has completed the first full assessment cycle. This represents a material improvement compared to the pre-Axiom position, where risk relating to mergers and acquisitions was not proactively assessed.

While the structure and processes are in place, the quality of the analysis will depend on the maturity of underlying data and infrastructure, which remain in development. The long-term effectiveness of this approach is therefore dependent on the delivery of the wider Risk and Data Programme.

Direction 2(a)(iii) - Develop effective sharing of market intelligence and regulatory data between internal teams

The SRA has implemented governance arrangements (e.g. RIG and RIN), conducted case-study testing, and deployed risk analysts into operational teams, providing a credible structural response to previously fragmented intelligence flows.

However, the central issue identified in Axiom was not the absence of intelligence, but the failure of the SRA to act on that intelligence. While intelligence sharing structures are now in place, there is limited evidence at this point-in-time that those structures are consistently driving action or decision-making.

Direction 2(a)(iv) - Use market intelligence to inform regulatory approach and policy development

The SRA has created the governance framework and mechanisms required to integrate market intelligence into policy development, including embedding risk analyst support and aligning governance structures across policy and operations.

While the intended framework is in place, there was, at the time of the review fieldwork, limited evidence demonstrating how intelligence has materially shaped specific policy decisions.

Direction 2(a)(v) - Demonstrate delivery of all of the above through internal reporting mechanisms and regular reporting to senior leadership

The SRA has implemented a structured reporting architecture, including formalised scoring methodologies, RIF reporting templates, and regular reporting to ARC and the Board. This represents a clear improvement in governance visibility.

However, the qualitative assessment highlights that reporting effectiveness is dependent on content quality, not just structure. More evidence will become available over time to help demonstrate the extent to which the reporting is sufficiently granular and forward-looking to identify firm-level risks early enough to enable preventative intervention.

Summary of the extent to which Direction 2 (Risk) has been met

"Strengthen risk functions and market intelligence to ensure a proactive and integrated approach to identifying and responding to risk across the legal sector."

The SRA has **strengthened its risk functions and market intelligence capability**, with 9 of 13 implementation steps graded Fully Met and a coherent risk architecture now in place. This includes the Risk and Intelligence Framework, a Board-approved harms framework, a completed Risk and Data Operating Model review, an established market risk assessment process, revised RIG governance, embedded risk analysis support to operational and policy teams, and structured reporting to ARC and the Board.

These changes represent a clear step forward in delivering a more **integrated approach**: intelligence flows, governance forums and reporting lines are now connected across operational areas and policy development in a way they previously were not. However, the Direction has not yet been fully met against its requirement for a **proactive** approach to **identifying and responding to risk**. Three steps remain Partially Met and one is a Future Action, reflecting that the Risk and Data Operating Model is still being designed and implemented, and the RIF-to-Harms feedback loop was self-assessed in the Q3 evidence submission as being at maturity level 1. There is evidence of strengthened risk functions, but the proactive, integrated response across the legal sector is still to be fully evidenced in practice.

5.2.3 Direction 3: Supervision - Authorisation

Strengthen the SRA's authorisation controls to better protect and promote the public interest and the interests of consumers and promote and maintain adherence to the professional principles, to address the concentration of ownership, compliance and management roles in one individual.

Summary of the grading of the corresponding Implementation steps

Table 4: *Direction 3 Implementation Steps Assessment*

Direction Ref.	Step No.	Specific Step	Grade	Rationale for grade
3(a)	1	Finalise policy position and proposed solution. Draft any proposed rule changes. Prepare consultation.	Fully Met	Policy position, draft rules and consultation preparation were completed.
3(a)	2	Board approval to consult on any proposed rule changes.	Fully Met	Board approval to consult was evidenced.
3(a)	3	Consultation on proposed rule changes.	Fully Met	The consultation was completed.
3(a)	4	Evaluate consultation response.	Fully Met	Consultation responses were evaluated and reflected in the policy position.
3(a)	5	Board agrees positions and makes any necessary rule change(s).	Fully Met	The Board agreed the final position and rule changes.
3(a)	6	Set initial project plan for future implementation of rules, including plan for retrospective application to those previously authorised.	Fully Met	An initial implementation plan was produced.
3(a)	7	Submit LSB application.	Fully Met	The application was submitted to the LSB.
3(a)	8	LSB evaluation of rules change (90-day estimate).	Future Action	This is dependent on the LSB evaluation process.
3(a)	9	Set refined project plan for future implementation of rules, including plan for retrospective application to those previously authorised.	Future Action	The refined plan is contingent on the LSB outcome.

Across Direction 3(a), the majority of the implementation steps (1–7) are Fully Met but the final steps (8–9) are graded as Future Action, dependent on external approval of the LSB. This reflects strong delivery of the policy lifecycle, with implementation pending.

Summary of the qualitative assessment of Direction 3

Direction 3(a) - Revise its regulatory arrangements and guidance to put in place an effective risk-based approach to protect consumers and the public from potential harm arising from a single individual holding more than one role in a firm or other authorised body e.g. owner, manager, compliance officer for legal practice, compliance officer for finance and administration, and money laundering compliance officer.

We conclude that the SRA has completed a full end-to-end policy development process, including policy design, consultation, evaluation, Board approval and submission to the LSB. This represents a comprehensive and timely response to the Axiom issue relating to concentration of roles.

We also identify two additional considerations:

Firstly, the rules are not yet in force, meaning the preventative effect has not yet been realised.

Secondly, the tiered, threshold-based approach reflects the SRA's application of proportionality in relation to risk, including the use of thresholds calibrated on turnover and client money held. The effectiveness of this approach will depend on how these thresholds operate in practice, specifically, whether they capture firms at the point where risks to consumers become sufficiently material to warrant SRA action. This means that the calibration of thresholds will determine whether there is an appropriate balance between early identification of emerging risk with a proportionate regulatory response versus necessarily seeking to intervene at the earliest stage of firm growth.

Summary of the extent to which Direction 3 (Supervision – Authorisation) has been met
"Strengthen the SRA's authorisation controls to better protect and promote the public interest and the interests of consumers and promote and maintain adherence to the professional principles, to address the concentration of ownership, compliance and management roles in one individual."

The SRA has made progress in the policy development lifecycle required to **strengthen its authorisation controls** in response to the concentration of ownership, compliance and management roles in one individual. Seven of nine implementation steps are graded Fully Met. The proposed rules directly target the role-concentration risk evidenced in the Axiom Ince case.

The final two steps are assessed to be Future Actions, dependent on LSB approval and subsequent implementation activity. The preventative effect of the new controls, and therefore the **full protection of the public interest and consumer interests** intended by the Direction cannot yet be demonstrated in operation.

5.2.4 Direction 4: Supervision - Client Money

Strengthen the regulation of client money to better protect and promote the public interest and the interests of consumers and promote and maintain adherence to the professional principles.

Summary of the grading of the corresponding Implementation steps

Table 5: *Direction 4 Implementation Steps Assessment*

Direction Ref.	Step No.	Specific Step	Grade	Rationale for grade
4(a)(i)	1	Establish and conduct review of potential harms related to financial stability of firms.	Fully Met	The financial stability harms review was completed.
4(a)(i)	2	Identify any relevant changes to processes and/or regulatory arrangements.	Fully Met	Relevant process and regulatory changes were identified.
4(a)(i)	3	Implement any internal changes.	Fully Met	Internal changes, including independent bank verification, were implemented.
4(a)(i)	4	If the review identifies changes to regulatory arrangements, then set plan for finalising policy position/ proposed solution/ draft rules and consultation/ Board approval thereof/ consultation/ evaluation of	Partially Met	This step will be met through a Supervision Task Force Pilot. A high-level plan has been provided, but evidence of a "detailed plan setting out actions required to successfully implement" (as stated in the intended 'Impacts' for this step) is outstanding because the SRA has made the

		responses/ Board making rules/ submission to LSB etc. once review complete.		deliberate choice to iteratively conduct detailed planning for the 3-month delivery cycles.
4(a)(ii)	1	Finalise policy position, proposed solution. Draft any proposed rule changes. Prepare consultation.	Fully Met	Policy position and draft rule changes were completed.
4(a)(ii)	2	Board approval to consult on any proposed rule changes.	Fully Met	Board approval to consult was evidenced.
4(a)(ii)	3	Consultation on proposed rule changes.	Fully Met	Consultation was completed.
4(a)(ii)	4	Evaluate consultation response.	Fully Met	Consultation responses were evaluated.
4(a)(ii)	5	Board agrees positions and makes any necessary rule change(s).	Fully Met	Final proposals were approved.
4(a)(ii)	6	Set initial project plan for future implementation of rules.	Fully Met	An initial implementation plan was produced.
4(a)(ii)	7	Submit LSB application.	Fully Met	The LSB application was submitted.
4(a)(ii)	8	LSB evaluation of rules change (90-day estimate).	Future Action	This is dependent on LSB evaluation.
4(a)(ii)	9	Set refined project plan for future implementation of rules.	Future Action	This is contingent on the LSB outcome.

For Direction 4, 10 out of 13 steps fully meet the intended implementation step. There are 2 steps outstanding due to pending LSB evaluation, as per standard process. There is one partially met step related to the absence of a detailed plan for finalising changes to regulatory arrangements identified by the review of potential harms related to the financial stability of firms.

<u>Summary of the qualitative assessment of Direction 4</u>

Direction 4(a)(i) — Use an effective risk-based approach to assess the potential for consumer or market harm arising from firms' financial stability, including where appropriate through obtaining and reviewing firms' financial and accounting information

The four steps deliver a completed financial-stability harms review (completed in January 2026, identifying risk factors derived from the Axiom experience, such as aggressive debt/WIP financing, unsustainable growth, competitive pressure, loss of key personnel, external shocks and regulatory breaches), two substantive process changes, and a plan for any consequential rule changes.

We note that Forensic Investigation Officers now obtain signed bank authorities at the outset of all investigations and independently confirm client-account balances with the bank in every case. That closes the precise gap identified in the LSB's Decision Notice paragraph 16b, echoing the Carson McDowell report – noting that the October 2022 inspection did not check balances to bank statements, obtain copies, or get a confirmatory bank letter, and so missed an opportunity to detect the alleged misappropriation. The SRA has applied for a rule change to require mandatory annual accountant's reports (or declaration of exemption conditions) to be submitted by all firms.

The SRA has decided to establish a Supervision Task Force pilot, shifting the operational culture of the organisation from a reactive, complaints-initiated model to more proactive supervision for high-risk firms. This is a direct response to the broader intent of the LSB Directions and Carson McDowell review, in regards to a demonstrable change in the way the SRA supervises the industry in a more forward-looking, risk and data-driven, predictive way, with enhanced engagement to identify the firms that pose the greatest risk. The current 12-month pilot covers a defined subset of firms – "high volume consumer claim firms and firms with complex business structures (including growth firms)."

The specific *procedural* gap from Axiom is fully closed; the larger proactive-inspection ambition is in progress through an iterative/agile pilot for the Supervision Task Force. The 'learning by doing' approach of this pilot means that there will be a real assessment of financial stability for firms within scope and the ability to implement targeted improvements throughout the pilot.

Direction 4(a)(ii) — Ensure firms have effective safeguards to protect client money

Across nine steps the SRA has delivered the activities within its scope - finalised policy and rules, Board approval, joint consultation, evaluation of responses, Board agreement with CEO sign-off, an initial implementation plan, and submission of the LSB application.

In regard to how the SRA has met the broader spirit of the Direction, firstly, CM paras 363–364 recommended periodic rotation of reporting accountants for higher-risk firms to safeguard independence. Following formal consultation, the SRA decided *not* to proceed with this recommendation for now, on the basis that the responsibility for setting and enforcing professional and ethical standards (including expectations around independence and conduct) sits with the chartered accountancy bodies of which reporting accountants are members. Instead, the SRA has taken a pragmatic decision to re-assess the need for firms of different types to rotate their accountants once they receive all accountants' reports over time.be the monitoring framework, which determines how the SRA acts on the reports it now receives.

Summary of the extent to which Direction 4 (Supervision – Client Money) has been met
"Strengthen the regulation of client money to better protect and promote the public interest and the interests of consumers and promote and maintain adherence to the professional principles."

The SRA has materially **strengthened the regulation of client money**, as evidenced by the completion of a financial stability harms review, mandatory independent bank verification by Forensic Investigation Officers at the outset of all investigations, and Board-approved rule changes to require mandatory annual accountant's reports (or declaration of exemption) submitted to the SRA by all firms. The progress made against this Direction is clearly directed at **better protecting the public interest and the interests of consumers**.

The rule changes submitted to the LSB are not yet in force (these steps are assessed as Future Actions pending LSB evaluation), and the detailed planning for the broader supervisory shift is being developed iteratively rather than in a single upfront design (one step Partially Met). Full effectiveness of the **strengthened regulation** will therefore depend on completion of the pilot, evaluation of the new supervisory model, and how consistently the SRA acts on the financial information it now receives.

5.2.5 Direction 5: Supervision - Sales, Mergers & Acquisitions

Introduce oversight mechanisms for firm consolidation activity to better protect and promote the public interest and the interests of consumers and promote and maintain adherence to the professional principles.

Summary of the grading of the corresponding Implementation steps

Table 6: Direction 5 Implementation Steps Assessment

Direction Ref.	Step No.	Specific Step	Grade	Rationale for grade
5(a)(i)	1	Develop initial policy options around potential risk indicators and notification requirements.	Fully Met	Initial policy options were developed.
5(a)(i)	2	Identify any rule changes needed, draft rule changes. Prepare consultation.	Fully Met	Rule changes were identified and drafted.
5(a)(i)	3	Implement any appropriate internal process improvements.	Fully Met	Internal process improvements were implemented.
5(a)(i)	4	Finalise policy position. Confirm proposed rule changes. Prepare consultation.	Fully Met	Proposed policy changes finalised and presented to the SRA Board.
5(a)(ii)	5	Board approval to consult on any proposed rule changes.	Fully Met	Board approval confirmed senior leadership alignment.
5(a)(ii)	6	Set initial project plan for future development of policy positions to include developing resource and expertise needed.	Partially Met	Initial planning was completed, but further resource and expertise planning is needed.
5(a)(ii)	7	Consultation on proposed rule changes.	Future Action	Consultation is planned for September 2026, so is not yet due.
5(a)(iii)	8	Set project plan for finalisation and future implementation.	Future Action	This step is not yet due and depends on consultation outcomes.

Five out of eight Implementation Plan steps have been graded as Fully Met. There is one step marked as Partially Met due to ongoing planning activity and there are two steps marked as Future Action as they are not yet due.

During the review period, the SRA made targeted revisions to the implementation plan for this Direction, including changes to consultation timing and sequencing of activities related to sale, merger and acquisition policy development. These changes were formally communicated to the LSB alongside the Q2 progress report, with a revised implementation plan submitted reflecting the updated timelines. The revisions were discussed with the LSB and published.

Summary of the qualitative assessment of Direction 5

Direction 5(a)(i) — Put in place measures to enable more effective risk-based scrutiny of firms undergoing sale, merger or acquisition, including where relevant ensuring that the SRA receives advance notice of such activities.

Direction 5 is directly aimed at the lead findings of the Carson McDowell review and the identified SRA omissions: the SRA had intelligence that Axiom had acquired a succession of firms rapidly from September 2020 but did not undertake a risk-assessment until March 2023, and did not have a clearly defined or consistently applied mechanism to require notification of, or to scrutinise high-risk consolidations.

In response, the SRA has developed policy options and risk indicators, drafted rule changes and importantly, implemented three internal process improvements:

1) A new internal central mailbox for colleagues to share intelligence on firm structural change, which is monitored by the Authorisations team.
2) Better use of annual Practicing Certificate Renewal data, to identify indicators of sales, merger & acquisitions activity the SRA may not already be aware of.
3) Authorisation Team Leaders assigned as points of contact for firms making repeated acquisitions.

These internal improvements seek to maximise the SRA's ability to scrutinise acquisitive firms within their current powers.

Direction 5(a)(ii) — Proactively use its powers, including for inspection and provision of information, where sale, merger or acquisition of firms presents or may present serious risk to consumers, including to enable an informed assessment of that risk to be made.

The steps here secure Board approval to consult on the proposed acquisition rule changes and begin the project planning to develop the proactive-powers regime, with the consultation itself a Future Action. Board approval evidences the alignment of the SRA's senior leadership on the direction of travel - notification thresholds, and proactive use of existing powers - and the requirements-gathering for resource and expertise is under way.

The most significant control - a rule requiring advance notification, so the SRA learns of an acquisition before or as it happens - is not yet in place. The SRA still depends on discovering acquisitions through data it already holds or public sources such as Companies House, which means firms can complete acquisitions without the SRA's awareness until information is filed elsewhere. The consultation on these rule changes is underway and closes on 17 August 2026. So, while the diagnosis and the within-powers workarounds are in place, the powers that would actually close the information gap are still pending.

Direction 5(a)(iii) — Make alterations to its regulatory arrangements where the SRA considers existing arrangements are insufficient to carry out the above functions effectively and efficiently.

The SRA's plan against this direction contains a single, forward-looking commitment to set a project plan for finalisation and implementation of any necessary rule alterations. This has been graded 'Future Action' and is wholly contingent on the consultation mentioned above. There is consequently no evidence available yet.

Summary of the extent to which Direction 5 (Supervision – Sales, Mergers & Acquisitions) has been met

"Introduce oversight mechanisms for firm consolidation activity to better protect and promote the public interest and the interests of consumers and promote and maintain adherence to the professional principles."

The SRA has **introduced interim internal oversight mechanisms** within existing powers, which begin to address the **firm consolidation activity** risk and **protect the public and consumer interest**. However, the principal oversight mechanism (a formal requirement for advance notification of acquisitions) is dependent on completion of consultation, LSB approval and implementation.

The Direction also requires the SRA **to promote and maintain adherence to the professional principles.** The SRA's response to Direction 5 to date does not explicitly draw the link between the interim mechanisms introduced and the professional principles. This is an area where further clarification may be helpful as the consultation outcome and final rules are developed.

B

5.2.6 Direction 6: Supervision - Pre-intervention Procedures

Improve its capacity to intervene early and proportionately to prevent serious regulatory failures.

Table 7: *Direction 6 Implementation Steps Assessment*

Direction Ref.	Step No.	Specific Step	Grade	Rationale for grade
6(a)(i)	1	Review processes and guidance for decision making on whether to intervene and investigate with supporting training for staff, ensuring it properly reflects the need to consider the protection and promotion of the public interest and the interests of consumers.	Fully Met	Processes and guidance were reviewed and updated.
6(a)(i)	2	Implemented identified changes for decision making process and guidance on whether to intervene and investigate with supporting training delivered for staff, ensuring it properly reflects the need to consider the protection and promotion of the public interest and the interests of consumers	Fully Met	Guidance, templates and training materials were implemented.
6(a)(ii)	3	Amended intervention plan to capture considerations of interim measures / regulatory tools at onset of investigation.	Fully Met	The intervention plan now prompts early consideration of interim measures.
6(a)(ii)	4	Create interim measures / regulatory tools to capture considerations following progression of investigation.	Fully Met	Interim measure tools and review templates were created.
6(a)(ii)	5	Draft amended template wording to reflect previous considerations of interim measures / regulatory tools and guide decision makers on alternative options to intervention.	Fully Met	Templates were amended to guide decision-makers on alternatives.
6(a)(ii)	6	Draft work instructions on creation, use, and monitoring of compliance plans.	Fully Met	Compliance plan instructions and templates were implemented.
6(a)(ii)	7	In addition, for 6(a)(ii), we will review options for additional regulatory powers as alternatives for intervention. Implementation timelines will depend on the outcome of that review.	Fully Met	An independent review of additional powers was completed.
6(a)(iii)	1	Process guidance for consideration of interim conditions in all investigations.	Fully Met	Guidance and effectiveness review were completed.
6(a)(iii)	2	Implement use of compliance plans as potential alternative regulatory arrangements.	Fully Met	Compliance plans were implemented and supported by effectiveness review.

All Implementation steps for Direction 6 have been graded as Fully Met. No gaps in delivery have been identified, and the SRA has provided significant evidence to demonstrate considerable progress against each of these requirements.

<u>Summary of the qualitative assessment of Direction 6</u>

Direction 6(a)(i) - ensure its guidance for making intervention decisions and decisions to investigate concerns require the consideration of the protection and promotion of the public interest and the interests of consumers

The two implementation steps against this direction are scored as Fully Met. The SRA has reviewed and revised their decision-making framework with supporting training, operationalised through an updated intervention case checklist (rolled out August 2025) and a consolidated Interventions Handbook. The checklist requires

Investigation Officers to weigh the protection and promotion of the public interest and consumer interests as independent factors.
These changes respond to weaknesses identified in the Carson McDowell review and LSB Directions, which found that the SRA did not act adequately in response to risks, resulting in adverse impacts on the public interest and consumers. The revised framework provides a more structured basis for ensuring that these considerations are explicitly addressed in decision-making. The letter of the requirement is met and is supported by a substantial evidence package.

We note that while the checklist should prompt consideration, it cannot guarantee the weight a decision-maker gives the public interest in a specific case. So, the behavioural change sought cannot yet be evidenced by the checklists and training materials alone. The required move from an investigatory to a supervisory emphasis was referenced consistently and credibly across our review's fieldwork interviews, suggesting the cultural change the Direction targets is being implemented.

Direction 6(a)(ii) - implement measures to ensure that proportionate interim protections for consumers and the public can be applied prior to formal intervention

The SRA's completion of the following activities delivers a comprehensive, coherent operational toolkit:

- An intervention plan template requiring consideration of interim measures from the outset of any investigation
- Formalised interim measures with a dedicated review template
- Amended template wording, guiding decision-makers towards alternatives to intervention
- Compliance-plan work instructions with a Board-approved template
- An independent external review (completed April 2026) of additional regulatory powers as alternatives to intervention.

The SRA is proceeding with the recommendations of the independent review within the Supervision Task Force Pilot. This will include the testing of supervisory tools to assess what additional regulatory powers may be required. The interim-protection toolkit is delivered and operating; the deeper question of whether the SRA needs additional statutory powers has been started but is not yet complete.

Direction 6(a)(iii) - improve internal procedures, templates, and decision records to ensure evidence is gathered consistently and decisions are auditable

The SRA's response embeds process guidance for the consideration of interim conditions in all investigations (evidenced by guidance and training documents plus a formal effectiveness review) and implement compliance plans as an alternative regulatory arrangement. This is comprehensively evidenced, and we note that the effectiveness review examines both where tools were used and where they were not. This provides a balanced, self-critical test of consistent application.

Summary of the extent to which Direction 6 (Supervision - Pre-intervention Procedures) has been met

"Improve its capacity to intervene early and proportionately to prevent serious regulatory failures."

The SRA has clearly **improved its capacity to intervene early and proportionately**. All nine implementation steps are graded Fully Met. A comprehensive operational toolkit is now in place to support **early and proportionate intervention**.

Direction 6 is therefore assessed as **substantially met**, with both the required structural improvements and emerging operational evidence in place to demonstrate strengthened capacity to **prevent serious regulatory failures**. The only outstanding element is implementation of the additional regulatory powers recommended by the independent review, currently being progressed via the Supervision Task Force pilot, which will further reinforce the improvements already delivered.

6 RECOMMENDATIONS

RECOMMENDATIONS FOR DIRECTION 1 (GOVERNANCE)

While the SRA has successfully implemented the required governance structures, frameworks and controls, the next phase should focus on evidencing their effectiveness in practice. This should include establishing outcome-based governance metrics that demonstrate the quality of challenge, timeliness of escalation, and the extent to which risk intelligence influences decision-making. Periodic deep-dive reviews of Board and Committee decisions should be introduced to assess how effectively information is being used and whether it is driving different or improved outcomes.

RECOMMENDATIONS FOR DIRECTION 2 (RISK)

Although a comprehensive risk architecture has been established, further work will be required to ensure that risk identification consistently leads to timely and effective regulatory action. The SRA should define clear escalation thresholds and triggers linked to the harms framework to support consistent decision-making. Embedding risk analysis within operational forums, with clear accountability for each risk category, will help strengthen the link between information and action. Delivery of the Risk and Data Operating Model should be an area of continued focus to improve data integration, analytics capability, and the quality of risk insights. In parallel, formal feedback loops should be established between the Risk and Intelligence Framework, the harms framework and regulatory outcomes, to ensure that learning is captured and applied.

RECOMMENDATIONS FOR DIRECTION 3 (SUPERVISION - AUTHORISATION)

The SRA should focus on ensuring that policy delivery translates quickly into operational impact once LSB approval is secured. This should include developing a detailed implementation plan in advance of approval, covering timelines, resourcing, and transition arrangements. Particular attention should be given to the practical application of the rules, including the supervisory approach to retrospective application and the prioritisation of higher-risk firms. The SRA should also review and test the proposed threshold criteria to ensure they are capable of identifying fast-growing firms that may present Axiom-type risks.

RECOMMENDATIONS FOR DIRECTION 4 (SUPERVISION - CLIENT MONEY)

The SRA has introduced stronger structural controls, but further work is needed to demonstrate that these controls result in earlier identification of risk and more effective intervention. A clearer supervisory response model should be defined, setting out how financial intelligence and accountant reports trigger escalation and regulatory action. The Supervision Task Force pilot represents an important step towards proactive supervision. This pilot needs to be completed, and the results evaluated to fine-tune, with clear criteria for scaling. The SRA should also develop a more detailed and comprehensive implementation plan for regulatory changes arising from the financial stability review. Monitoring should be strengthened to evidence how improved data, reporting and controls are being used to inform decision-making in practice.

We would also suggest two further forward-looking actions:

First, to establish a defined workstream, plan and timeline to address the question of whether firms should hold client money at all. The SRA's Consumer Protection Review found there to be "a strong case to properly explore the long-term transformation of the model of holding client money."

Second, we would suggest a structured investigation into the wider use of third-party managed accounts (TPMAs) - including whether they could be incentivised or required for higher-risk firms.

RECOMMENDATIONS FOR DIRECTION 5 (SUPERVISION - SALES, MERGERS AND ACQUISITIONS)

The effectiveness of this Direction will depend on the timely introduction of formal regulatory powers. The SRA should prioritise the delivery of rule changes that introduce mandatory notification of firm acquisitions. In the interim, existing data sources and intelligence channels should be used more systematically to identify consolidation activity and support risk-based intervention. A clear operating model should be developed for ongoing M&A supervision, including required skills, resources and analytical capabilities. The SRA should also define and monitor early warning indicators for rapid consolidation patterns to ensure that emerging risks are identified at as early as possible.

RECOMMENDATIONS FOR DIRECTION 6 (SUPERVISION - PRE-INTERVENTION PROCEDURES)

This is the most mature area of delivery, but continued focus is required to ensure that improvements are sustained and evidenced over time. The SRA should track and evaluate the use of interim measures and compliance plans in live cases to demonstrate their effectiveness in preventing harm. The recommendations from the independent review of additional regulatory powers should be progressed at pace, with clear implementation timelines. Post-intervention reviews should be introduced to assess the quality, timeliness and proportionality of decisions, and to support continuous improvement. Ongoing case audits should also be used to evidence behavioural change, particularly in relation to earlier and more proactive intervention.

CROSS-CUTTING RECOMMENDATION

Across all Directions, a consistent theme is that structural improvements have been delivered but their effectiveness cannot be fully evidenced in a 12-month period. The SRA should therefore introduce a cross-cutting framework for demonstrating outcomes in practice. This should include a defined set of outcome-based indicators, supported by case studies and thematic reviews, to show how improved governance, risk, and supervision arrangements are translating into earlier risk identification, more proactive intervention, and better protection of consumers.

7 CONCLUSION

The Independent Assurance Review of the SRA's response to the LSB Directions concludes that there has been substantial and timely delivery of the required structural reforms, with the majority of implementation steps completed and no areas assessed as not met.

Across all six Directions, the SRA has established significantly enhanced governance frameworks, risk architecture and supervisory processes, representing a clear improvement on the position identified following the Axiom Ince failure. These changes demonstrate that the SRA has met the letter of the Directions in most areas and has laid the foundations for a more robust regulatory approach.

However, the review also highlights a consistent and important qualification: the effectiveness of these reforms is not yet fully evidenced in practice. In several key areas, particularly risk, supervision and intelligence-led decision-making, the transition from framework design to embedded, outcome-driven operation remains incomplete.

A number of critical dependencies also remain, including:
- the implementation of rule changes subject to LSB approval,
- the development of new regulatory powers (notably for M&A oversight), and
- the maturation of data, reporting and operating model capabilities required to support proactive regulation.

As a result, while the SRA has made material progress towards compliance, the review finds that full assurance against the spirit of the Directions will depend on demonstrable outcomes over time. This will include evidence that risks are identified earlier and acted upon, intelligence consistently drives regulatory decisions, and interventions are applied more proactively and proportionately.

In summary, the SRA has moved decisively to address the structural weaknesses identified by the Axiom Ince case, but the next phase of delivery must focus on embedding, evidencing and sustaining these changes in operational practice. Continued oversight, targeted implementation of outstanding actions, and a follow-up review will be essential to confirm that the intended regulatory improvements have been fully realised.

8 ADDENDUM: PM LAW SERIOUS EVENT REVIEW REPORT

Our assurance review was conducted entirely independently of the Jenner & Block Serious Event Review (SER) into the PM Law Group. The two exercises have run in parallel with similar completion dates, and we have only had sight of the initial Jenner & Block findings and recommendations since 25 June 2026 — effectively giving two working days for the comparison of our findings with those of Jenner & Block. As a result, our comparison of Jenner & Block's assessment against our own has been produced as a separate addendum; the points below set out the principal areas of comparison between the two reports.

The Jenner & Block report and our assurance review reach consistent conclusions. The Jenner & Block report identifies three structural gaps that prevented the SRA from forming a single, coherent risk picture and converting operational concern into timely regulatory action regarding PM Law Group: (1) a lack of technological capability to aggregate intelligence across workstreams; (2) limited Forensic Investigation (FI) capability for complex group structures; and (3) the absence of fully defined escalation criteria. While these echo, overlap and map onto our findings and recommendations, they also provide additional specificity based on the recent PM Law experience.

1: Information aggregation

Our review finds that although the SRA has built a comprehensive risk architecture under Direction 2, there is more to do to embed and evidence the impact of these changes – particularly around the consistent use of intelligence to inform decisions.

The Jenner & Block report into PM Law found that the SRA had significant intelligence on the PM Law Group, but it was fragmented across different teams and systems. This finding reflects our observations on the criticality of the Risk and Data initiative, which must be prioritised and seen through to conclusion at pace.

Jenner & Block also makes specific recommendations about the ability to capture ownership structures and to ensure inter-team co-ordination to ensure that issues in firms with complex structures, (perhaps include entities with different names but common ownership) are linked. We note that the delivery of the systems investments required can have long lead-times, particularly when data quality improvements, the potential for data migration into new structures and change management are required.

2: FI capability for complex groups

Jenner & Block's concern over FI frameworks, training and supervision aligns with our findings on Client Money (Direction 4), where policy and controls are robust but full effectiveness depends on completing the Supervision Task Force pilot. Jenner & Block's report highlights a specific example of this - while the "FIO obtained independent bank confirmation of account balances, they did not examine the statements of account in detail and did not identify several red flags that were obvious...". The SRA should ensure that the Task Force success criteria consider this example as a test-case.

Our recommendations to define a clear supervisory response model and strengthen monitoring, together with testing threshold criteria to capture fast-growing, high-risk firms (Direction 3), address the same maturity gap Jenner & Block identify for multi-entity groups and complex ownership structures.

3: Escalation.

Jenner & Block's recommendation for fully defined escalation criteria is mirrored in our Direction 2 recommendation to define clear escalation thresholds, ensuring serious accumulated concerns reach ExCo (and Board where appropriate) rather than depending on individual initiative.

Taken together, both reviews converge on similar conclusions: The SRA has made substantial structural progress and has largely met the commitments set out in its implementation plan in response to the Directions, but the decisive test is whether reforms translate into earlier risk identification, aggregated intelligence and reliable escalation in practice. Jenner & Block's review gives firm-specific examples of the effectiveness gaps our review identifies - reinforcing our conclusion that the next phase must focus on embedding, evidencing and sustaining these reforms.

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